

APRIL 2 1988

Australia	\$1.22	Indonesia	Rp11.00	Peru	S/1.20
Bahrain	Dh1.50	Israel	₪3.50	S. Africa	R17.00
Belgium	₧7.40	Italy	L.1700	Singapore	S\$1.10
Canada	C\$1.00	Japan	¥100	Taiwan	N\$1.00
Ceylon	C\$1.00	USA	\$1.00	Thailand	฿50.00
Denmark	Dk10.00	UK	£1.00	West Germany	DM1.00
France	Ffr1.00	USSR	₹1.00	Yemen	Yr1.00
Germany	DM1.00	USSR	₹1.00	Yemen	Yr1.00
India	₹1.00	USSR	₹1.00	Yemen	Yr1.00

# FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

Tough time ahead for US bank reforms, Page 3

No. 30,505

Tuesday April 5 1988

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### World News

## US, Moscow 'prepare' for collapse of Afghan talks

Evidence mounted that the Soviet Union and the US are preparing for a breakdown in the UN-sponsored talks on Moscow's planned troop evacuation from Afghanistan.

US intelligence sources said that Mr Eduard Shevardnadze, the Soviet Foreign Minister, who has been in the Afghan capital since Sunday, was making contingency plans for the unilateral withdrawal of some of the 115,000 Soviet troops if the deadlocked Geneva talks were called off.

### Mitterrand hint

President Francois Mitterrand of France has hinted that he believed South Africa was behind the murder of an African National Congress official in Paris, but ruled out breaking off diplomatic links with Pretoria.

### Dalai Lama visits UK

The Dalai Lama, exiled Tibetan spiritual leader, arrived in the UK on a 10-day visit. An all-party parliamentary group condemned the British Foreign Office request that he make no political statements during the visit.

### Ferry talks planned

Talks to end the strike by 2,300 seamen employed by P&O European Ferries which has disrupted sailings between Britain and France for the past eight weeks are expected to resume later this week.

### Nuclear protests

About 10,000 people protested against nuclear weapons at Aldermaston in Berkshire, UK, while more than 200,000 people took part in weekend anti-nuclear rallies in West Germany.

### War of cities resumes

Iran and Iraq traded missile strikes after a three-day lull in city attacks. Iraq attacked a refinery, Page 2.

### Manila hunt widens

The Philippines army widened its search for coup-attendant leader Gregorio Honasan amid accusations that the US was involved in his escape. Future of US bases, Page 6.

### Somali border pact

Ethiopia and Somalia have agreed to resume diplomatic relations and reduce military tension on their border after talks in the Somali capital of Mogadishu.

### Moscow radio attack

Soviet Communist Party daily newspaper Pravda accused Western radio stations of inciting Armenian unrest over the disputed region of Nagorno-Karabakh. Strikes continue, Page 2.

### Managua denial

The Nicaraguan Government denied accusations by Contra rebel leader Adolfo Calero that government troops violated a three-day-old ceasefire.

### Colombia massacre

Hooded gunmen killed more than 30 Colombian peasants when they opened fire on a crowd at an Easter festival near the northern town of Buenavista.

### UK boys die in Alps

Four British schoolboys, believed to be from the London area, slipped to their deaths yesterday in the Austrian Alps.

### Boat people rescued

The French Navy rescued 40 Vietnamese boat people, including a pregnant woman and 11 children, in the South China Sea.

### Secrets Act charge

Erwin van Haarlem, 49, an art dealer, of Southgate, London, is to appear before UK magistrates today charged with an offence under the Official Secrets Act.

### Business Summary

## UK sales of components to Japanese under review

BRITAIN and Japan have launched a joint study to see how sales of British electronics components can be increased to Japanese companies with factories in the UK. Page 15.

### EUROPEAN Monetary System: A decline in the US dollar failed to put any strain on weaker members of the EMS last week. Unlike on most previous occasions, the D-Mark was not the prime beneficiary. Investors tended to switch out of dollars into yen and sterling.

Short-term interest rates have been allowed to fall sharply in Frankfurt, decreasing the D-Mark's attraction. A strong economic base in Japan and high UK interest rates provided more tempting alternatives.

The Bank of Italy sold D-Marks at Tuesday's fixing in Milan, although all currencies were trading well within their divergence limits.

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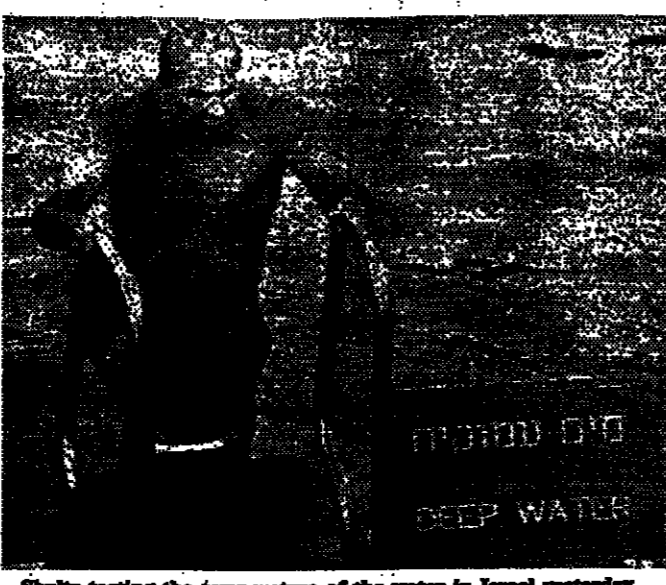
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Shultz testing the temperature of the water in Israel yesterday

## Shultz tries to unite Israelis on peace plan

MR GEORGE SHULTZ, US Secretary of State, was last night working hard to convince the divided Israeli Government to begin peace negotiations soon with the country's Arab neighbours, emphasizing the substance of the US-framed proposals rather than the procedure for implementing them, writes Andrew Whitley in Jerusalem.

At the start of his third shuttle mission in six weeks, Mr Shultz held lengthy talks with Mr Yitzhak Shamir, the Prime Minister, as well as with his Labour Party coalition rivals, Mr Shimon Peres, the Foreign Minister, and Mr Yitzhak Rabin, the Defence Minister.

He was greeted by a general strike throughout Arab East Jerusalem, the West Bank and Gaza Strip, called by the underground leadership of the Palestinian uprising in protest against the US peace plan. One person was killed in the West Bank village of Bani Naim near Hebron but otherwise the day passed off relatively peacefully.

In a distinct switch of strategy, Mr Shultz has chosen to focus in his talks this time on the contents of a proposed two-stage solution for the Israeli-occupied territories. In addition, he has blitzed the local media with a series of personal appearances designed to calm Israeli fears of being ejected by its main ally into a cul-de-sac.

Mr Shultz travels today to Amman and Damascus to seek definitive replies to the formal proposals he left with the Jordanian and Syrian leaders a month ago. But, in the absence of a public commitment by Mr Shamir, he is unlikely to receive a positive response from the Arab side.

Speaking in the northern port city of Haifa, Mr Peres - the strongest supporter of the Shultz plan - said that progress had been made in his discussions with the US official. The two sides were said to have gone beyond the opening international conference into the substance and form of an interim agreement for the West Bank and Gaza Strip.

"Mr Shamir's refusal is the first barrier we have to overcome," Mr Peres remarked. "Maybe the more we go into details the less threatening it will be for him."

Describing himself as "really delighted" with his two-hour con-

versation with the Israeli Prime Minister, Mr Shultz said that his discussions had concentrated on the structure of the direct negotiations foreseen between Israel and the Arab states.

"Nobody put pressure on me. Nobody demanded anything of me," Mr Shamir said, unrepentant in his refusal to accept most of the basic elements in the US package.

Mr Javier Perez de Cuellar, the UN Secretary General, said yesterday there was too much disagreement among the parties directly concerned and within the Security Council to convene an international Middle East peace conference. Renter reports from the United Nations. Palestinians held and Saudi missiles offer, Page 2.

## European chips plan clouded by Siemens, SGS-Thomson dispute

BY GUY DE JONQUERES, INTERNATIONAL BUSINESS EDITOR, IN LONDON

PLANS FOR Western Europe's most costly and ambitious collaborative venture in semiconductor technology have been clouded by disagreements about which companies should be full members.

The dispute arises from apparent resistance by Siemens, the large West German electrical group, to demands by SGS-Thomson, Europe's second highest microchip maker, to participate fully. SGS-Thomson was formed last year by a merger of Italian and French microelectronics companies.

The tensions have been underlined by sharp differences between those involved about what was actually discussed at meetings to plan the project and by suspicions of a furtive disinformation campaign through leaks to the press.

In French government circles, the implications of the disagreements are considered to go well beyond the planned venture and to raise wider questions about the future of European co-operation in advanced electronics.

Siemens is already working closely on this subject with Philips of the Netherlands, Europe's biggest semiconductor maker. According to Datateq, a market research firm, Philips had worldwide semiconductor sales of \$1.5bn last year, SGS-Thomson \$650m and Siemens \$677m.

The planned venture, a joint European Semiconductor Silicon (JESS), would aim to match US and Japanese efforts by developing the technologies to make microchips in the late 1990s. It is due to start at the end of this year and run until 1995. Much of

the total investments of more than DM5bn (\$3bn) would be financed by Bonn and The Hague.

SGS-Thomson is part of a French consortium which has been taking part in planning the venture. It says it wants to play a significant role in work on the core microchip technologies to be developed by JESS and in pilot production line on which they would be proven.

However, the company and the French Government have been angered by several recent press reports in which senior Siemens executives have appeared to rule out more than a secondary role for SGS-Thomson.

In an interview published last week by Tribune de l'Expansion, the French newspaper, Dr Hermann Franz, the director in charge of Siemens semiconductor operations was quoted as saying of JESS: "Philips and Siemens will develop the technology itself. But SGS-Thomson could be associated with work on design and equipment." Mr Philippe Geyses, director of strategic planning at SGS-Thomson, said such limited involvement "is of no interest to us and is unacceptable."

Siemens' response is that the French themselves ruled out a bigger role. According to minutes taken by a member of the West German-Jess consortium at a meeting with their French and Dutch counterparts in Paris on February 19, the French delegation said it saw no basis for collaborating in the pilot production line.

Officials in Paris say they were "amazed" to learn of that version

of events. According to the record taken by Mr Jacques Lacour, the senior official who heads the French consortium and who hosted the meeting, the French side had emphasized that it was determined to be fully involved in JESS.

He suggested that further detailed discussions were needed between the companies on how to organise technical collaboration. He warned this might delay the project, on which the German and Dutch Governments aim to take firm decisions in June.

SGS-Thomson was at first slow to express a firm interest in JESS and took four months to give its views on the project last year. It says its top management was fully occupied with reorganisation in the wake of the merger.

France is also doubtful about plans to build a brand-new research centre for JESS in West Germany, arguing that the work could be done more cheaply in the participating companies' existing laboratories. There are strong suspicions in Paris that German eagerness to site the planned centre in Schleswig-Holstein is linked to the immensity of a closely-contested election in the state in May.

Siemens and Philips have worked closely together since 1985 in Megaproject, a joint programme to develop powerful microchip memories. The project has received substantial funding from the West German and Dutch Governments and is due to end next year. After a difficult start, it is widely judged to have been a technological success.

Continued on Page 18

## Today's primary in Wisconsin provides a test for Democratic Party candidates' appeal to the state's liberal blue collar voters



Jesse Jackson in the pulpit on Easter Sunday

## Dukakis needs convincing win

BY STUART FLEMING, US EDITOR, IN WASHINGTON

GOVERNOR MICHAEL Dukakis of Massachusetts badly needs a convincing victory in today's primary elections in Wisconsin to reinvigorate his bruised campaign.

Mr Dukakis and the Rev Jesse Jackson, who is riding high after his triumph in the Michigan caucus 19 days ago, are now front-runners in the race for delegates to the Democratic Party's convention in July.

Each has about 645 of the 2,082 delegates needed to nominate the party's presidential candidate. Senator Albert Gore of Tennessee and Senator Paul Simon of Illinois, the two remaining contenders, have won the support of about 368 and 168 delegates respectively, according to the New York Times.

For Mr Dukakis, however, the real test in Wisconsin is not the 21 convention delegates at stake,

but how he goes down among the state's blue collar workers. Mr Jackson has been making a powerful pitch for the support of this core constituency of the Democratic Party.

A poor performance in Wisconsin would reinforce the doubts that Mr Dukakis lacks the passion to make the transition from successful state governor into a viable presidential candidate.

In contrast, Mr Jackson continues to make news in the liberal sense. His latest flurry yesterday was to produce a letter from Fanfan's embattled military chief, General Noriega, the product of an exchange between the two men. Mr Jackson said, however, he had no intention of mediating in the affairs of Panama.

Wisconsin, a state with a progressive tradition though a conservative voting record in presidential elections, is a state with a progressive tradition though a conservative voting record in presidential elections.

Continued on Page 18

## Economic gospel according to the Rev Jackson

By Anthony Harris in Washington

"WHEN A mother has five to feed, and three pork chops to feed them with, she doesn't commission a study which shows she has two surplus children. She makes some gravy."

This simple parable always gets a good response for the Rev Jesse Jackson, and it says quite a lot about the economic gospel he preaches with such success: it is homely, multi-intellectual, and addressed to a world of have-nots. It could also be taken to suggest that the Jackson programme is rather short of meat, but smothered in spicy gravy.

That impression was reinforced at a Washington breakfast last week when a group of academics and journalists heard the programme expounded by Mr Mark Selitz, Mr Jackson's issues adviser.

He was once on the staff of the Congressional Budget Office and might have been expected to sound dry and specific. Not a bit of it. Mr Jackson was also in Washington that morning, to attend a rather more widely publicised meeting, but his adviser sounded very like him. The feelings were strongly expressed but there was little sign of detailed analysis. This was economic protest as much as it was economic policy.

Effective protest must be addressed to felt grievances.

Continued on Page 18

## India to erect border fence in attempt to curb Sikh violence

BY JOHN ELLIOTT IN AMRITSAR

INDIA PLANS to build a security fence along part of its border with Pakistan as part of a stepped up attempt to stem growing Sikh violence in the troubled northern state of Punjab.

Nearly 200 people have been killed there in the past 10 days. In addition to the security fence, other new measures taken include the provision of more sophisticated weapons for police and paramilitary forces, deployment of extra border forces, increased intelligence surveillance, imposition of a curfew and restrictions including special identification papers in sensitive border areas.

Although Pakistan has not been specifically named, it is being indirectly and pointedly accused of facilitating the recent upsurge of violence in the Punjab by allowing supplies of AK-47 rifles and rocket launchers to be passed to Sikh extremists who are campaigning for a form of independence from India.

Some of the weapons are manufactured in Pakistan's tribal areas and others are supplied by foreign governments for use by the Afghan mujahideen who are fighting against the Soviet occupation of Afghanistan.

"It is clear that some foreign hand is helping the terrorists," Mr Siddhartha Shankar Ray, Governor of the Punjab, said in Amritsar yesterday.

"We have very positive information that sophisticated arms and ammunition are now being given free of charge to the terrorists."

For several years, India has accused Pakistan of allowing weapons to reach the Sikh extremists who it alleges are trained by Pakistan intelligence agencies.

But it has produced little concrete evidence and the issue has not built up into a major diplomatic incident between the two countries, relations between which are already severely strained.

But Mr Rajiv Gandhi, the Indian Prime Minister, is now known to be seriously concerned that there has been a fresh flow of advanced weapons and that this may endanger his latest peace initiative.

Mr Ray said yesterday that any peace-making attempts in the past few years had been negated by an immediate surge in violence.

The surge in killings follows the release from prison a month ago of five Sikh high priests and 40 other jailed activists.

The Government hopes that the senior priest, Mr Jashvir Singh Rode, a leading militant, will be able to unite five splintered terrorist groups and bring them to the negotiating table.

Mr Rode said yesterday he was the "bridge between the militants and the Government," but he gave no indication that the Government would have to prove its credibility with a number of conciliatory actions, including the release of up to 3,000 more Sikhs from jail, before any talks could take place.

It is widely assumed that the recent killings of complete families, and of both Sikhs and Hindus, are the work of three of the five militant groups most determined to establish an independent Sikh nation of Khalistan.

Speakers for these groups in the Golden Temple insisted that they hoped the violence would kill the peace initiative and accused the Government of staging the mass killings in order to pave the way for a state of emergency.

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# OVERSEAS NEWS

## Belgians try to settle on coalition

By David Buchan in Brussels

THE LEADERS of five of Belgium's political parties start serious talks today on forming a ruling coalition, against the backdrop of new evidence that the country's public finances are deteriorating in the absence of a proper government for the past 115 days.

Mr Guy Verhofstadt, budget minister in the outgoing administration of the caretaker premier, Mr Wilfried Martens, has forecast that Belgium's public borrowing requirement this year is likely to rise to 8 per cent of gross domestic product (GDP), compared to his original estimate of 7.4 per cent. This relatively small increase is significant in that it would reverse the steady decrease in public borrowing from nearly 15 per cent of GDP in 1982 to about 7 per cent last year.

By spelling out hard economic truths on the eve of the new round of coalition talks, Mr Verhofstadt has not made these talks any easier. That, indeed, may have been his aim, because his FVV Flemish liberal party is not included in the negotiations which encompass Flemish and French speaking Christian Democrats and Socialists, plus the Volksunie Flemish regional party.

Mr Jean-Luc Dehaene, a fellow member of the GVP Flemish Christian Democrats with Mr Martens, has been charged by King Baudouin with the task of trying to form a new government. If he succeeds, the successive centre-right governments of Mr Martens will be replaced by a centre-left coalition, with the centrist Christian Democrats dropping partnership with the right-wing Liberals and joining hands with the Socialists.

Today Mr Dehaene is due to present a draft "governmental accord" to leaders of the five parties involved in the coalition talks. The trickiest problem concerns linguistic disputes.

## ISRAELIS HOLDING 1,000 ARABS IN DESERT CAMP

# Lawyers condemn 'insanitary' jail

BY ANDREW WHITLEY IN JERUSALEM

ABOUT 1,000 Palestinians from the West Bank and Gaza Strip caught up in the military operations by the Israeli army are being held in the Negev desert under conditions of extreme hardship.

According to an association of international lawyers based in the West Bank, Law in the Service of Man, the detainees are suffering from inadequate water supplies, insanitary conditions and collective punishments. The detention centre, a rehabilitated military base near the Egyptian border known as Kitzyot Prison, or "Answer Three", was opened last month to house an overflow of prisoners from the West Bank and Gaza Strip. Among them are so-called "administrative detainees" - political prisoners being held without trial for six months - as well as Palestinians accused of such offences as throwing stones at army patrols.

In the first independent inspection of the Kitzyot Prison, three lawyers - two of them American - were permitted last week to visit one of four strictly demarcated units within the camp. They reported that none of the prisoners had been allowed access to lawyers or family members.

Another Palestinian was killed yesterday by Israeli soldiers in the West Bank village of Beit Naim, near Hebron, bringing the death toll so far to a conservative figure of 134. Mr Abed Al-Mohdi, aged 18, was the latest victim of a

Barab: aggressive policy



Barab: aggressive policy new, more aggressive policy announced by Defence Minister Yitzhak Barab on Sunday.

In a sharp increase of fatalities, 26 people have been killed over the past week alone. Two of those who died on Sunday were electrocuted while climbing high tension electricity pylons at the behest of soldiers, to pull down Palestinian flags hanging from the wires.

Proclaiming yet another shift of tactics in the four-month-long Palestinian uprising, Mr Barab acknowledged that most of the six Palestinians who died on Sunday - the worst single day so far - were killed as a result of army-initiated actions. Mr Barab described the latest bloodshed as "outbursts of hostilities" which, he said, contrasted with the "relative tranquillity" Israeli troops had been able to impose.

## Iran fires missile at Kirkuk refinery

BY OUR FOREIGN STAFF

IRAN SAID yesterday its forces attacked an oil refinery in northern Iraq and a petrochemical plant in the south. But Iraq claimed one missile crashed into a residential area, killing and wounding civilians.

Iranian Revolutionary Guards fired a missile at the Kirkuk refinery while jets bombed Basra's petrochemical complex, according to the Iranian news agency. An Iraqi military spokesman in Baghdad said the attack on Kirkuk, which processes half of Iraq's oil output, hit a densely populated neighbourhood.

The attacks, launched in retaliation for Iraqi air raids

at the weekend which ended a short break coinciding with a visit by Mr Turgut Ozal, the Turkish Prime Minister, to Baghdad, prompted a counter strike by Iraq.

Iraq responded with a missile fired at the historic Iranian city of Kofahan. It hit a densely populated district of the northern city, centre of Iraq's oil industry, and killed or wounded several people, an Iraqi military spokesman said.

The oil fields of Kirkuk have been the target of Iranian attacks in recent weeks as Revolutionary Guards and Iraqi troops battle for control of the area to the east of the town, Iraq's Kurdistan region.

## Armenian strikes go on as Kremlin hits at media

By Leslie Collin in Moscow

STRIKES continued yesterday in the disputed region of Nagorno-Karabakh as the Kremlin indicated its displeasure with the Western media, and attacked arrested Armenian nationalists who gave information to the West.

Despite earlier reports by Soviet officials that the work stoppages in Stepanakert, capital of Nagorno-Karabakh, were nearly over, strikes were continuing in many factories and offices in the region, sources in Soviet Armenia reported.

The strikes were in protest at the refusal of Soviet leaders to allow the region, where Armenians make up 70 per cent of the population, to join Soviet Armenia. Nagorno-Karabakh has been part of Soviet Azerbaijan since 1923.

Pravda yesterday attacked Mr Pavur Ahrkyan, an Armenian nationalist who was arrested 10 days ago, along with at least three other activists, and accused them of defaming the Soviet state. The Communist daily said he and some of his fellow detainees were among the "most zealous instigators of ethnic strife".

The newspaper's increasingly strident line on the unrest appears to reflect the leadership's worries that it could cause nationalist grievances to surface elsewhere in the Soviet Union.

A prominent Uzbek writer, Mr Timur Pulatov, wrote in the liberal Moscow News that even after nationalist riots in the Central Asian republic of Kazakhstan in December 1986, and "similar events" in the Baltic republics and Karabakh, Soviet propaganda in these regions pretended there were no problems.

Pravda also sharply attacked another source of information about the unrest, Mr Sergei Gevorgyan, a dissident publisher who is partly of Armenian origin.

It accused Western radio stations - the Voice of America, BBC, the US-sponsored Radio Liberty and West Germany's Deutsche Welle - of seeking to "fan national strife" together with "so-called sources" in the Soviet Union.

One of them was Mr Ahrkyan whom it called a convicted criminal who had gathered "nationalistically incited" people around himself. Pravda said he counted on assistance from "reactionary circles" in the West who were interested in whipping up national divisions.

Deserted beaches on paradise islands become a reality as sun-worshippers stay away, reports Canute James

# Market crash blamed for fall in Caribbean tourism

WHEN TURMOIL overtook international stock markets in the final quarter of last year, Caribbean brokers hardly moved a muscle. The region's exchanges, with only local listings, were insulated they argued. Only now are the effects of October's crash being felt - not in the markets, but in the fickle tourist trade.

Travel agents, hoteliers and finance ministers are pointing to soft bookings in a period - winter in the northern hemisphere - which is traditionally the high season for Caribbean tourism. They blame the collapse of the stock markets and suggest that the steady expansion in the industry over the past four years could be halted this year.

"Before the stock market crash, we were anticipating a bumper 1988," said Mr Jean Holder, executive director of the Caribbean Tourism Research and Development Centre, based in

Barbados. "We had looked at the prospects for the North American and European markets, and had concluded that the outlook was positive. We now have to admit that because of the stock exchange crash, which started in October, there has been a fall in tourism."

The Caribbean had a record 5m visitors last year, an improvement of 10 per cent after 4.6m in 1986. The industry had projected another 10 per cent growth this year - a target which Mr Holder suggests will not be achieved.

The setback could not have come at a worse time for the industry. Earnings from traditional commodity exports such as sugar, bauxite and oil are falling so many countries have been developing their tourism infrastructure and increasing their earnings from the travel trade. About 60 per cent of the

region's tourists come from the US with growing numbers from Western Europe. A decline in visitor arrivals and reduced earnings promises a setback for those economies which have depended increasingly on tourism.

In Jamaica, for example, tourism has overtaken bauxite as the leading foreign currency earner. The region's earnings from the travel trade last year are estimated at \$8.3bn, up from \$5.6bn in 1986.

Travel agents and tour operators in the US report that bookings this month for Caribbean holidays are down by about 20 per cent. They say there is concern among prospective travellers over the state of the US economy.

But Mr Edward Seaga, Jamaica's prime minister, has forecast an improvement, at least for the island's tourism. While there has been a decline in book-

ings in Jamaican hotels - which he also blames on the stock market turmoil - he said there are signs of a reversal. Visitor arrivals in the island in November of last year were 1 per cent less than November of 1986, and the volume for December fell 13 per cent.

Mr Holder said, however, that the situation for the Caribbean was not irretrievable. "There are two things in our favour. Firstly, the weather is bad in North America, and European currencies are strong against the dollar."

While a bad winter could drive shivering North Americans to the Caribbean, a leading Puerto Rican hotelier admits, Europeans will get a better bargain with Caribbean hotel prices quoted in US dollars.

"A year ago, a double room in a good resort hotel in the Caribbean would cost about £70, but a

visitor from Britain would now pay just over £50 (\$85)," he explained.

But the Caribbean itself is a victim to changes in the parity of currencies in resort areas. The progressive devaluation of the Mexican peso is drawing prospective visitors away from the Caribbean, say some hoteliers. A visitor can have two weeks in Acapulco, the Mexican resort, for the price of one week in Barbados, one reported.

It, however, that Caribbean does attract more tourists, the region would build on a steadily expanding market. "The Caribbean out-performed most other competing, warm weather destinations in the European market during 1987," the Caribbean Tourism Research and Development Centre reported. "Tourist arrivals from Europe, including the UK were up by over 30 per cent in the year to September, with West

Germany (up 50 per cent) and France (up 40 per cent) showing the largest percentage gains."

The decline in the volume of stayover tourist arrivals is also expected by the regions tourism administrators to affect cruise-ship business, but to a lesser degree.

The Bahamas and the US Virgin Islands, the leading cruise destinations in the region, reported increases of 1.1 per cent and 20.3 per cent, respectively, in the first nine months of last year. The tourism centre said cruise ships brought 5m visitors to the Caribbean in 1986.

Officials in the region say there has been only a small decline in the number of calls and the volume of visitors, as cruise holidays are usually booked far in advance, and ship calls planned even further ahead.

"Travellers are clearly very cautious," said Mr Holder.

## Saudis may allow US to inspect Chinese missiles

SAUDI ARABIA will let US experts inspect medium-range missiles acquired from China if Washington guarantees Israel will not attack them, an Arab diplomat said yesterday, Reuters reports from Amman.

"I believe Saudi Arabia will allow inspection in return for a US guarantee, but will not agree to withdraw the missiles," the diplomat said.

The arrangement would be agreed during the current hour of the Middle East talks by Mr George Shultz, the US Secretary of State, he added.

Mr Shultz is in Israel and is expected to visit Riyadh, the Saudi capital, on Thursday.

Saudi leaders were concerned about a possible Israeli pre-emptive strike against the Chinese ground-to-ground rockets which can carry nuclear warheads, the diplomat said.

Giving inspection rights to the US was aimed at halting damage to Saudi-US relations caused by Saudi Arabia's secret purchase of the CSS-2 missiles, which could reach Iran or Israel.

"Riyadh wants its ties with the

United States to stay as they were," the diplomat said.

An inspection accord would confirm an assurance against Israeli attack given by Washington after Israeli officials said they could not tolerate the presence of such arms in Saudi Arabia.

Saudi Arabia and China have said the missiles are for defence only and would not be armed with nuclear warheads.

Saudi Arabia plans to slash by two-thirds the number of Iranians allowed into the kingdom for this year's Hajj pilgrimage to the holy Moslem city of Mecca, the diplomat said.

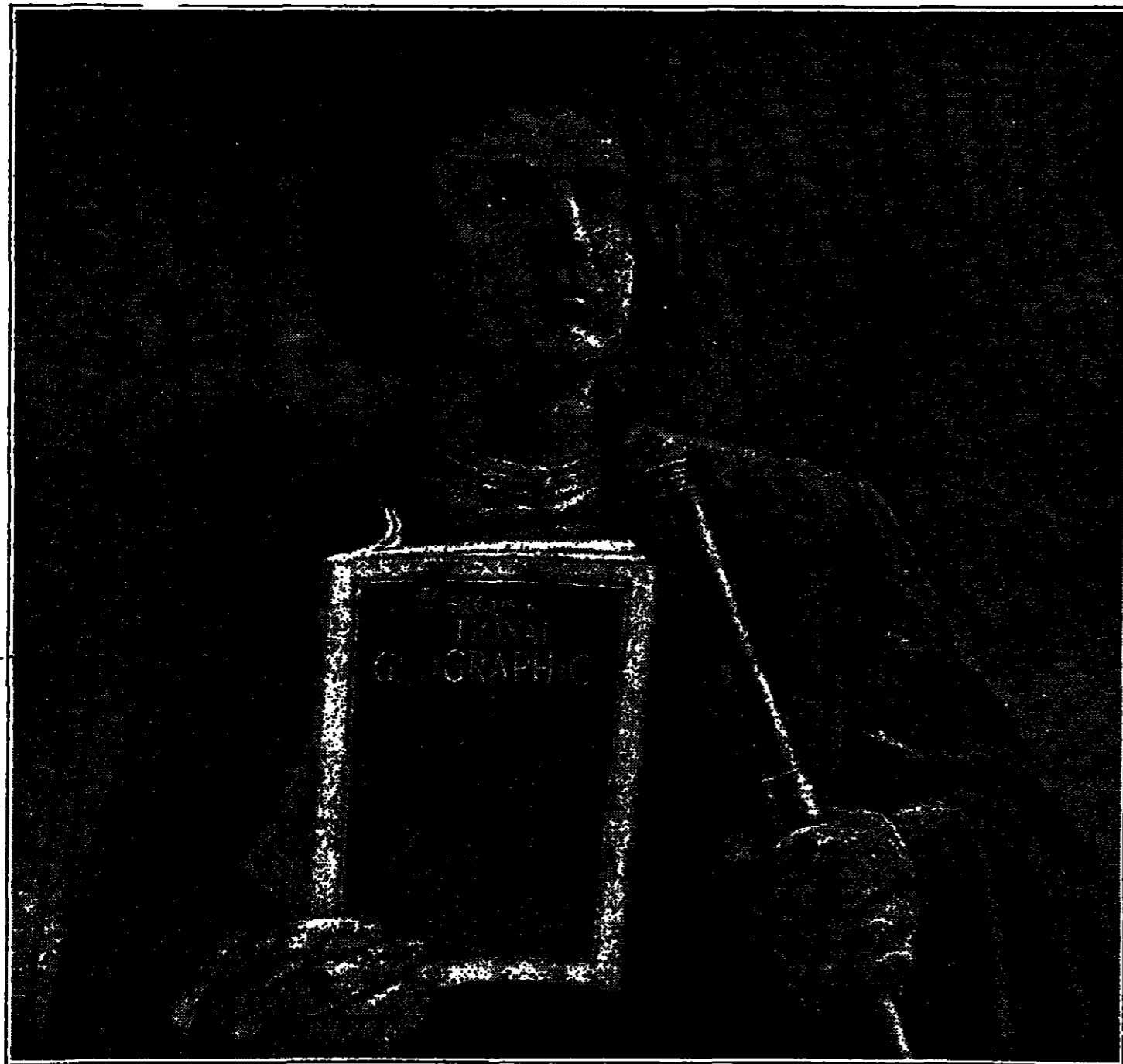
The exact number has not been decided, but it will be about one third of the usual number of pilgrims sent by Iran, he said.

About 150,000 Iranians made the pilgrimage last year, when at least 400 people were killed in Mecca in clashes between Saudi security forces and demonstrating Iranian pilgrims.

The diplomat said West German police arrived in Saudi Arabia last month to provide riot control training. This year's pilgrimage begins in mid-July.

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At its meeting on March 8, 1988, the Board of Directors of Jacobs Suchard Ltd., Zurich, resolved to propose to the shareholders an increase in the share capital at the Ordinary General Meeting of Shareholders to be convened on April 28, 1988.

The Board of Directors of Jacobs Suchard Ltd., Zurich, further decided at its meeting on March 8, 1988, subject to the concurrent approval of the aforementioned capital increase by the General Meeting, to grant the holders of participation certificates a subscription right at analogous terms and conditions as those granted to shareholders.

The new securities offered for subscription to the present shareholders and holders of participation certificates shall be entitled to the dividend as of January 1, 1988. The subscription price and the subscription terms shall be announced at the General Meeting on April 28. Provided that the capital increase is carried out in the form as planned, the prices of the warrants for the subscription to participation certificates will be reduced effective May 23, 1988, in conformity with the formula specified in the Conditions of the bond issues. The new warrant prices will be announced as soon as possible after that date.

The holders of warrant certificates who wish to make use of the subscription right, are invited to exercise their warrants

not later than Friday, April 15, 1988

at the official agents listed below:

Deutsche Bank Aktiengesellschaft, Frankfurt am Main  
Union Bank of Switzerland, Zurich.

After April 15, 1988, participation certificates obtained against warrants will be delivered ex-rights.

Zurich, April 5, 1988

Jacobs Suchard Ltd.

### Delvalle cautions on Panama sanctions

By Stewart Fleming, US Editor, in Washington

PANAMA'S deposed president, Mr Eric Arturo Delvalle, who is still recognised as head of government by the US, has expressed his opposition to any intensification of Washington's pressure to drive General Manuel Noriega, Panama's military strongman, from power.

Mr Delvalle's views, reported yesterday in the New York Times, could influence the debate raging within the Reagan Administration over what steps Washington should take next in its efforts to remove General Noriega, who was indicted on February 5 in the US on drug smuggling and racketeering charges.

Mr Delvalle, who is in hiding in Panama, said there was no need for the US to take additional steps. "If the US continues the present pressure that will be enough," he said, adding that General Noriega "is desperately in search of funds and he isn't getting any."

He added that "an embargo or stronger economic sanctions might generate a negative effect towards the US and might not provide immediate effects."

The Reagan Administration is this week reinforcing its already strong garrison in Panama, dispatching a further 1,300 troops there to reinforce the security force guarding the Panama Canal. Last month it doubled the canal security force from 600 to 1,270.

In addition there are some 10,000 troops stationed in Panama, which is the headquarters of US Southern Command.

Several weeks of mounting pressure from Washington, which has helped to close down the banking system and deprive General Noriega's regime of the cash it needs to pay government workers, has so far failed to bring about the downfall of Mr Noriega. This has triggered a fierce debate in Washington about what the next steps should be.

US officials have indicated that a wide range of diplomatic, political and military options are under consideration but that no decisions have been taken yet.

There are indications, however, that the State Department feels that the pressure on General Noriega to quit should be intensified further immediately. However, the Pentagon is reportedly unenthusiastic about moves which could involve the US in military action in Panama.

**Inflation gathers pace in Peru**

By Barbara Durr in Lima

PERU'S rate of inflation last month hit 22.6 per cent, the highest in the country's history. The abrupt increase, following 12.5 per cent in January and 11.5 per cent in February, put inflation at 179.5 per cent during the last 12 months.

Some independent economists are predicting that Peru's inflation will race ahead to more than 500 per cent this year.

The government is hoping that the petrol, food and other price increases it announced early last month have been absorbed in a single blow, and that the price freeze it imposed will now reduce April's inflation to less than half March's rate.

The government appears to be aiming to contain inflation at 200 per cent this year, but there is a lot of scepticism about its chances.

While the government is making efforts to monitor its price controls, hoarding and speculation are widespread.

### Argentina to open oil fields to private companies

BY OUR BUENOS AIRES CORRESPONDENT

PRIVATE SECTOR oil companies are to be allowed to operate Argentine oil fields, until now the sole domain of the state oil corporation, Yacimientos Petroliferos Fiscales.

The policy, approved late last week by President Raul Alfonsín's full cabinet, was an important shift from decades of state domination in the oil sector, industry sources said. "Past plans have centred on intentions rather than production," one senior company representative said yesterday.

Industry officials here say the measure is intended to increase stagnating oil output, which threatens to force Argentina to import oil for a second year running. Production last year totalled 24.6m cubic metres, about 10m barrels; little difference from the 1985 level. Imports are estimated privately at over half a million cubic metres last year.

YPF's acute financial difficulties, after several years of operating losses and overseas debts estimated at some \$4bn, are also thought to lie behind the new policy drawn up by the Public Works Minister, Mr Rodolfo Terragno.

Independent companies have long pressed to be allowed into

## Despite a Senate win, the Proxmire bill may have only a 50-50 chance, says Janet Bush

# Tough time ahead for US banking reform

TIRELESS Congressional aides celebrated into the small hours after the resounding vote in the Senate late last Wednesday in favour of sweeping reform of the 1933 Glass-Steagall Act which would allow banks access to the business of securities houses and vice versa.

As glasses were raised to applaud what was a personal victory for Senator William Proxmire, the redoubtable chairman of the Senate Banking Committee who retires at the end of this Congress, thoughts were already turning to the battle which awaits in the House of Representatives.

The 94 to 2 vote in the Senate in favour of the Senate Banking Committee's Financial Modernisation Act was more conclusive than even the most optimistic supporters of reform had hoped.

Senator after senator stood up in the debate last Wednesday afternoon to express discomfort with some of the bill's provisions. And, speech after speech, those doubts were buried in favour of a united stand around Senator Proxmire which would send a clear message to legislators in the House.

The Senate bill, which is expected to be resumed the Proxmire bill in honour of its main author, would give US commercial banks immediate authority to underwrite commercial paper, municipal revenue bonds, mortgage-backed securities and securities

backed by other assets.

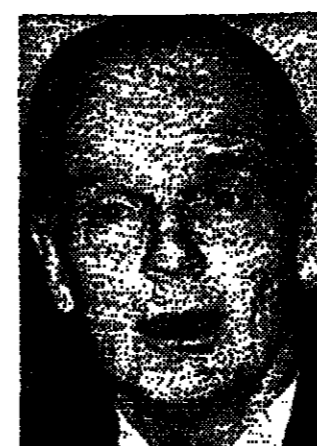
Six months after enactment of the legislation, banks would be allowed to underwrite mutual funds and corporate bonds. The power to underwrite corporate equities would depend on an expedited vote in Congress in 1991.

Even in the euphoria after the Senate vote, one Congressional aide still gave the bill only a 50-50 chance of eventually becoming law. Mr Don Crawford, Washington representative of the Securities Industry Association, the staunchest lobbyist for the securities industry, believes the Proxmire bill represents a high water mark for the banks for whom last Wednesday's vote was plainly a significant victory.

The focus now turns to the House where some of the stiffest opposition to greater powers for banks resides. Two powerful friends of the securities industry and defenders of their own committee turf will have considerable say in whether anything resembling the Proxmire bill gets on to the statute books.

They are Mr Ferdinand St Germain, chairman of the House Banking Committee, and Mr John Dingell, chairman of the Energy and Commerce Committee.

Mr St Germain's so-called "committee print" is, at this stage, the main rival to the Proxmire bill. It is far more restrictive, allowing banks only three



Sen William Proxmire: resounding victory

before Congress breaks up for the November election.

Since the St Germain proposals were published a fortnight ago, they have attracted widespread criticism, not least within the House Banking Committee itself. According to Congressional aides, support has steadily been building behind Representative Stephen Neal, Democratic caucus chairman on the committee, who may introduce substitute legislation modelled on the Proxmire bill.

No one yet knows quite how much support can be mustered by Mr Neal. As chairman of the committee, Mr St Germain has a great deal of muscle and can start calling in favours.

There is also a clear danger that, if anything as restrictive as the St Germain proposals looked to be gaining political ground, the powerful bank lobby could walk away.

The banks have won notable victories in the courts, aided by the support of the US Federal Reserve, allowing them increased access to the securities business. If no legislation is passed, this quiet erosion is likely to continue without the establishment of a sound regulatory framework.

The banks' view is that they would rather be given expanded powers by law than by default. Have thrown their weight behind the Senate bill and will now work hard to stop Mr St Germain in the House. But they can with-

draw their immense lobbying power at any stage, a threat which may keep the legislative momentum going.

There are a number of other factors which are positive for the Proxmire bill. Mindful of past difficulties in tabling proposals for reform of Glass-Steagall, it was drafted carefully to please as many of the powerful industry lobbies as possible.

It also has the support of the US Treasury which regards the Proxmire bill as the absolute minimum deregulation and the St Germain proposals as completely unacceptable.

No one in Washington is prepared to bet on any legislation being enacted this year. So many intangibles could come into play. While the securities industry has been trying to bury the stigma of its insider trading scandals, banks have had the upper hand in lobbying Congress. However, if the troubles with Texan banks begin to deepen, which many expect, the banks could find themselves losing the public relations battle.

In favour of legislation is a general desire among politicians to be seen to be active in election year. Perhaps as important a factor as anything is a measure of sentimentality at the end of Senator Proxmire's long political career. One of his strongest cards is the affection of colleagues who want to see him retire on a triumphant note.

### Judge orders Bhopal payments

By K K Sharma in New Delhi

THE high court of Madhya Pradesh yesterday ordered Union Carbide to deposit 2.5m rupees (\$190m) with the Bhopal trial court within two months as payment of compensation to the victims of the 1984 gas leak disaster.

The ruling resulted from Union Carbide's appeal against an earlier ruling that it should pay \$2.5m in interim relief to the victims.

More than 2,000 died and more than 200,000 were injured by the gas leak from the Union Carbide pesticide plant in Bhopal in December, 1984 in the world's worst industrial disaster. Union Carbide has so far paid no compensation.

Union Carbide, a US-based multinational, had argued that a grant of interim relief could prejudice the outcome of the government suit. But Mr Justice Seth reduced the amount to be paid, and said: "The payment is not for interim relief but as damages under the substantial law of tort" on the basis that more than a prima facie case had been made out by the Indian Government against Union Carbide.

This comment caused some confusion in Indian legal circles. It appeared to link the payment to the merits of the Indian government's \$5m lawsuit against Union Carbide, which is still pending, rather than the side issue of interim relief dealt with by the earlier hearing.

The judge said that any further delay in extending the appropriate relief would have grave and tragic consequences. Any delay in making the payment, the judge said, would leave it open to the Indian Government to execute the court order as if it were a decree passed in favour of the trial court.

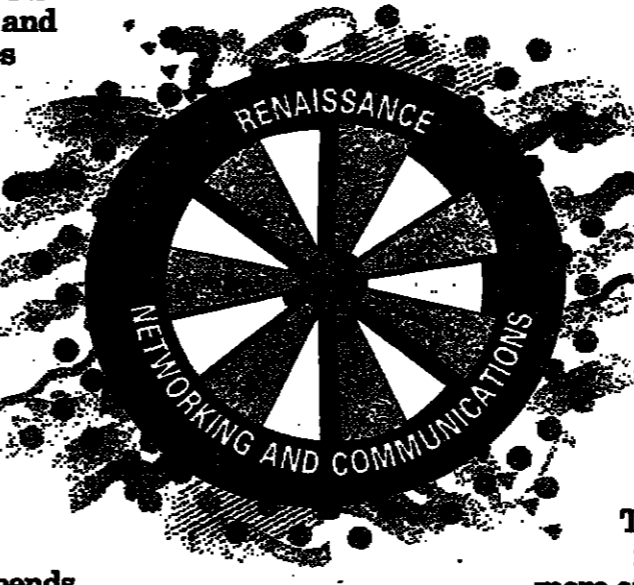
Union Carbide said it would study the ruling before deciding whether to appeal to India's Supreme Court.

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OVERSEAS NEWS

Haig Simonian in Frankfurt talks to Hesse's doughty leader, Walter Wallmann  
Nuclear power champion ready for a fight

IT IS one year to the day that Mr Walter Wallmann, one of West Germany's most prominent younger Christian Democrat politicians, won control of the state of Hesse in a cliff-hanging vote which brought the CDU to power for the first time since the Second World War.

Since that nail-biting election night, when an apparent stalemate turned into an unexpected CDU-Free Democrat majority of 11,000 votes, much has happened in Hesse.

Nuclear power, in particular, which was the issue that toppled the previous "Red-Green" coalition between the Social Democrats and the environmental Green party, still tops the agenda following a bribery scandal. A subsidiary of Nukem, one of three nuclear fuel rod producers at Hanau, on the eastern edge of the state, has been cited for illegal shipments of nuclear material.

Yet the affair has not dented Mr Wallmann's support for nuclear power, nor apparently has it damaged his image as a pragmatist ready to pull out all the stops to stimulate economic growth.

He was, after all, the first Christian Democrat politician to win control of Frankfurt, where he was Mayor for two terms before being called to Bonn by Chancellor Helmut Kohl in May to run a new federal Environment Ministry in the wake of the Chernobyl disaster.

Curiously, Mr Wallmann has not tried to distance himself from the Nukem scandal, though some supporters might like him to plead ignorance given the fact that he was not responsible for Hesse at the time. The main reason is that he remains passionately in favour of nuclear power, despite the scandal, which has triggered an investigation by the state parliament, and led to suggestions that late disclosure of the affair may have helped the CDU's election chances.

"I want the conflict about nuclear energy with the SPD (Social Democrats) and the Greens," he asserts. "It is true, I'm somewhat older than other CDU politicians on the subject." That boldness stems from a conviction, increased during his time in Bonn, that nuclear power is by far the lesser of two evils when it comes to the world's long-term energy needs.

"Weigh up which is the greater danger," he says, reaching for a tome on world population growth and the pace of industrialisation and power consumption in China, in particular. Thus polluting the earth's atmosphere through burning increasing amounts of fossil fuels will be a far greater problem than nuclear power, he argues.

The fact that Hanau supplies some 90 per cent of West Germany's nuclear fuel rods helps to explain Mr Wallmann's drive to fight the Greens and those in the SPD who want to close the installation and move the country away from nuclear power altogether.

"I want this fight," he says, pointing not just to the jobs at stake from a shift from nuclear power but to the wider economic consequences should the anti-nuclear lobby gain sway.

Would Mr Wallmann, who has been regularly tipped as a potential successor to Chancellor Kohl, consider returning to

Bonn, especially if that helped his cause? "I see my job here in Hesse," he says. At 55, "this is the last task that I will do."

A single four-year term in Hesse will not be long enough to perform the same economic turnaround he undoubtedly achieved in Frankfurt during his eight years of office. Even his critics admit the city, once deemed ungovernable, has improved beyond recognition. Architecturally it has made strides, while in business terms it has asserted itself not just as the country's financial centre but almost as a crypto-capital. Even its skyscrapers, once derided, are now envied.

"I changed a town," says Mr Wallmann. "Now I'd like to do the same in Hesse". He claims there are already signs that the state's economic growth, below the national average since 1982, is picking up now. But he denies it is just the lack of structural economic change which has let a city like Frankfurt, whose services are unopposed, to advance at the expense of like-sized and once grander counterparts such as Düsseldorf, near the industrial Ruhr.

"Frankfurt had a clear will," he says. "It's not just the luck of geography that attracts companies to a town. One has to sow it."

Art and culture are particularly prominent in this credo. Mr Wallmann talks of "the city as a place of Culture, and the big city as the centre for High Culture." Good people were attracted to Frankfurt, not just professionally, but by having things to do in the evenings too.

Some locals, looking at many of its often-deserted streets after shop-closing

time, might disagree. Others note the heavy debts built up as Mr Wallmann initiated developments like new museums and a slick rapid transit system.

Now he plans to extend the formula to Hesse. The south of the state, around Frankfurt, is economically well-off, but there are black spots in the north.

"Hesse as a *Kulturstaat*," is the theme now. In particular, International Cultural Showpieces like the four-yearly Dokumenta art exhibition in Kassel are events to exploit. Optimism and confidence are stressed throughout.

It is an appealing formula, not least because of Mr Wallmann's own enthusiasm and seeming conviction. Yet for all his regional commitment, the possibility of a return to Bonn, and maybe one day the Chancellorship, always recurs.

Chancellor Kohl had already rung twice about other unspecified jobs before Mr Wallmann accepted the sensitive environment portfolio after Chernobyl and in the run-up to the Lower Saxony elections, which many expected the CDU to lose. He agreed because the job was such a challenge at the time. Likewise earlier in Frankfurt, Mr Wallmann relished the idea of running a town with a terrible reputation where no-one thought the CDU had a hope.

To judge by his sanguine comments about the state of the federal government today, it is inconceivable that a trouble-shooter might ever be needed in the capital. But for all his regional commitment, the extraordinary Mr Wallmann may find it hard to resist the challenge of the top should it ever come his way.

Off-the-ball incident threatens World Cup

By John Wyles in Rome

AFTER a perilous penalty area incident, the Rome city council appears to have just avoided scoring an own goal over the staging of the 1990 World Cup soccer finals.

Showing an uncharacteristic turn of speed, the council has packed its defence against a threat from Fifa, the international soccer federation, to take the staging of the finals away from Italy.

The problem is that RAI, the national television network, does not yet have permission to build a vital £30m (\$34m) telecommunications centre.

Mr Joseph Blatter, the Fifa secretary general, threw the Italian soccer fans into a state of tension by warning that the finals could be switched to Mexico or West Germany unless Fifa was confident by early May that the centre would be built.

The consequent dangers of ugly crowd behaviour prompted the Rome council to go into emergency session earlier this week and to agree that the centre should be built on a site about 5km away from the one chosen by RAI — a decision hotly contested by the city's Communist and Green parties.

RAI's choice, near the banks of the Tiber and the stadium where some of the matches will be played, is destined to be parkland and, therefore, following traditional Italian social practices, the venue for more smarmy communications.

Fittingly, the Fifa-Rome clash could enable the owners of the proposed site to scoop the pool. RAI needs to buy the land soon and the proprietors know how this will add to the value of their assets. But RAI expects their ambition to be curbed by the knowledge that the response to excessive greed would be forced expropriation.

Nevertheless, there is still some pressure on the Italian defence. Unless Mr Blatter agrees to go into extra time, he presumably will expect the land purchase to be underway, if not completed, by the time of his next visit to Rome in May.

The ball, therefore, is still bobbing around the Italian goal-mouth and a swift deal over 300,000 sq metres of unopposing terrain is needed to kick it into touch.

Jobless tide rises in south Italy

BY JOHN WYLES IN ROME

STEADILY rising unemployment in southern Italy is highlighting the need for priority to be given to a better development strategy for the region by the coalition Government which Mr Ciriaco De Mita, the Christian Democrat leader, is trying to assemble.

According to the quarterly survey by Istat, the national statistical service, the southern unemployment rate has risen from 18.4 per cent in January 1987 to 20.6 per cent last January. This compares with a fall from 8.2 per cent to 7.6 per cent in the north and a stationary 10 per cent in the centre of the country.

Overall employment in Italy rose by 55,000 over the 12-month period, with the north and centre registering 96,000 more jobs and the south losing 41,000. But demographic trends, plus the desire of a growing number of housewives to enter the workforce, means that the total of

ALITALIA air services out of Italy are again in jeopardy following the rejection by 24,500 airport ground staff of a three and a half year pay deal, writes John Wyles. The agreement, reached with the help of government mediation after six months of strikes and go-slows, was rejected at the weekend by 53-47 per cent.

those seeking work has risen from 2,805m last January to 2,945m.

Unemployment rates among women and the under-30 age group are topping 30 per cent or more in parts of the south, partly as a reflection of a national decline in agriculture (133,000 fewer jobs since January 1987) and partly because the region is not benefiting proportionally from the growth of jobs in services which rose by 216,000 dur-

Drugs search stepped up after big police swoop

BY JOHN WYLES

ITALIAN police will be stepping up their searches for heroin refiners in Sicily and Calabria this week after more than 100 arrests in the US and Italy of suspected Mafia involved in an extensive and sophisticated international drugs trade.

The co-ordinated strike by Italian magistrates, the US Federal Bureau of Investigation and the US Drug Enforcement Agency is being presented by the American authorities as a mortal blow to a trafficking network which has yielded rapid profits.

Nicknamed "Pizza Connection" in succession to an elaborate Italo-American trade smashed some years ago, this latest Mafia enterprise has introduced a new rate of exchange to international commerce — 1kg of heroin equals 5kg of cocaine.

This was the basis for the

transfer of cocaine from the US to Italy and of heroin from Italy to the US. The beauty of the exchange is that it reduced the volume of "dirty money" to be recycled in Italy.

Among the 109 people arrested at the end of last week — 49 in the US and 69 in Naples, Catanzaro (Calabria) and Palermo — are names closely connected to the celebrated Gambino family of New York and to some leading families not only of the Sicilian Mafia but also of its autonomous cousin in Calabria, the 'Ndrangheta, and of the Naples Camorra.

While links, some of blood, between the Sicilian Mafia and the American Cosa Nostra are longstanding and well-established, the coalition between the three Italian underworlds may well be more extensive than any previously discovered.

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£150 million 8 per cent CONVERSION STOCK, 2000  
£150 million 8½ per cent TREASURY LOAN, 2007

In each case, the amount issued on 30th March 1988 represents a further tranche of the relevant Stock, ranking in all respects pari passu with the Stock and subject to the terms and conditions applicable to that Stock, and subject also to the provision contained in the first paragraph of this notice, the current provisions for Capital Gains Tax are described below.

Application has been made to the Council of the International Stock Exchange for each further tranche of stock to be admitted to the Official List.

Copies of the prospectuses for 2 per cent Index-Linked Treasury Stock, 1992 dated 15th February 1987 and 8 per cent Treasury Stock, 1991 dated 17th July 1987 may be obtained at the Bank of England, New Issues, New Change, London, EC4M 3AA.

The Stocks are repayable, and interest is payable half-yearly, on the dates shown below in the case of 2 per cent Index-Linked Treasury Stock, 1992 provision is made in the prospectus for stockholders to be offered the right of early redemption under certain circumstances:

Stock	Redemption date	Interest payment dates
2 per cent Index-Linked Treasury Stock, 1992	23rd March 1992	23rd March 23rd September
8 per cent Treasury Stock, 1991	10th December 1991	10th June 10th December
8 per cent Treasury Stock, 1991 is repayable at par.		

Both the principal of and the interest on 2 per cent Index-Linked Treasury Stock, 1992 are indexed to the General Index of Retail Prices. The index figure relevant to any month is that published seven months previously and relating to the month before the month of publication. The index figure relevant to the month of issue of 2 per cent Index-Linked Treasury Stock, 1992 is that relating to June 1986 (336.5). This index figure will be used for the purposes of calculating payments of principal and interest due in respect of the further tranches of stock as provided for in the prospectus; the calculations will take account of the revision of the index to a new base of January 1987 = 100 (for the old base the index for January 1987 was 354.5).

The relevant index figures for the half-yearly interest payments on 2 per cent Index-Linked Treasury Stock, 1992 are as follows:

Interest payable	Published in	Relevant index figure	Relating to
March	August of the previous year		July
September	February of the same year		January

The further tranches of 2 per cent Index-Linked Treasury Stock, 1992 and 8 per cent Treasury Stock, 1991 will rank for a full six months' interest on the next interest payment date applicable to the relevant Stock. Official dealings in the Stocks on The International Stock Exchange are expected to commence on Thursday, 31st March 1988.

2 per cent Index-Linked Treasury Stock, 1992 and 8 per cent Treasury Stock, 1991 will be apportioned under paragraph 1 of Schedule 2 to the Capital Gains Tax Act 1979 as gilt-edged securities (under current legislation exempt from tax on capital gains, irrespective of the period for which the Stocks are held).

**Government statement**  
Attention is drawn to the statement issued by Her Majesty's Treasury on 29th May 1986 which explained that, in the interest of the orderly conduct of fiscal policy, neither Her Majesty's Government nor the Bank of England or their respective servants or agents undertake to disclose tax changes decided on but not yet announced, even where they may specifically affect the terms on which, or the conditions under which, these further tranches of stock are issued or sold by or on behalf of the Government or the Bank; that no responsibility can therefore be accepted for any omission to make such disclosure; and that such omission shall neither render any transaction liable to be set aside nor give rise to any claim for compensation.

**BANK OF ENGLAND**  
LONDON  
30th March 1988



TEXACO

TO HOLDERS OF DEBT SECURITIES OF TEXACO INC., TEXACO CAPITAL INC. AND TEXACO CAPITAL N.V.

Notice of Establishment of Special Record Date and Payment Date

The Second Amended Joint Plan of Reorganization (the "Plan") of Texaco Inc., Texaco Capital Inc. and Texaco Capital N.V. was confirmed by the United States Bankruptcy Court by order (the "Confirmation Order") dated March 23, 1988 (the "Confirmation Date").

As provided by Bankruptcy Rule 3021, the record date for registered debt instruments will be opening of business on the Effective Date of the Plan which is scheduled to be fifteen days after the Confirmation Date (currently, April 7, 1988). Subject to any stay of the Confirmation Order and satisfac-

tion of other conditions set forth in the Plan, payments will be made with respect to the debt issues listed below on the day after the Effective Date (currently April 8, 1988) or as soon as practicable thereafter.

Payments will be made in the customary manner as provided in the debt instruments.

Bearer coupons and matured debt securities should be presented to the Paying Agent or Trustee for payment. Payments of interest to registered holders will be made by check mailed one day after the Effective Date to the holder of record as of the opening of business on the Effective Date.

Name of Issue	Trustee/Fiscal Agent (See legend below)	Amount Payable Per Issue
<b>TEXACO INC.</b>		
5¾% Debentures due 07/15/97	MHTCO	\$ 4,184,375.98
7¾% Debentures due 06/01/01	MHTCO	9,866,191.67
8¾% Debentures due 05/01/05	MHTCO	21,068,131.97
8½% Debentures due 04/01/06	Chase	13,991,294.88
<b>TEXACO CAPITAL INC.</b>		
12¾% Euronotes due 09/01/87	B of A	364,904,886.72
12¾% Euronotes due 09/01/92	B of A	15,237,338.34
Extendible Notes due 06/01/99 and tendered for repayment	Chase	415,400,191.62
Extendible Notes due 01/15/00 and tendered for repayment	Chase	445,489,803.01
13% Notes due 08/01/91	Chase	68,685,138.89
13½% Notes due 08/01/94	Chase	70,007,807.05
Extendible Notes due 01/15/00	Chase	12,263,695.86
Extendible Notes due 03/01/00	Chase	35,089,453.13

Name of Issue	Trustee/Fiscal Agent	Amount Payable Per Issue
<b>TEXACO CAPITAL INC. (Continued)</b>		
Extendible Notes due 06/01/99	Chase	\$17,027,469.14
10% Euronotes due 08/29/95	Chase	31,825,000.00
10% Euronotes due 09/19/90	Chase	26,381,944.44
11½% Euronotes due 05/15/95	UBS	30,588,631.73
11% Notes due 08/15/89	Irving	34,441,916.67
9% Notes due 11/15/88	Irving	28,572,750.00
<b>TEXACO CAPITAL N.V.</b>		
11¾% Convertible Subordinated Debentures due 05/15/94	Bankers Trust	64,943,637.15
11¾% Convertible Subordinated Debentures due 05/01/94	Bankers Trust	131,950,629.34
13½% Euronotes due 08/01/89	Chase	29,500,875.00
9¾% Euronotes due 03/01/90	Chase	14,771,554.69
10½% Euronotes due 11/15/90	Chase	21,875,875.00
10½% Euronotes due 11/15/93	Chase	995,133.55

Legend: MHTCO—Manufacturers Hanover Trust Company/Chase—The Chase Manhattan Bank, N.A./B of A—Bank of American National Trust and Savings Association/UBS—Union Bank of Switzerland/Irving—Irving Trust Company/Bankers Trust—Bankers Trust Company  
Dated: March 31, 1988  
By: Texaco Inc., Texaco Capital Inc., Texaco Capital N.V.



OVERSEAS NEWS

Hunt for Manila coup bid fugitive

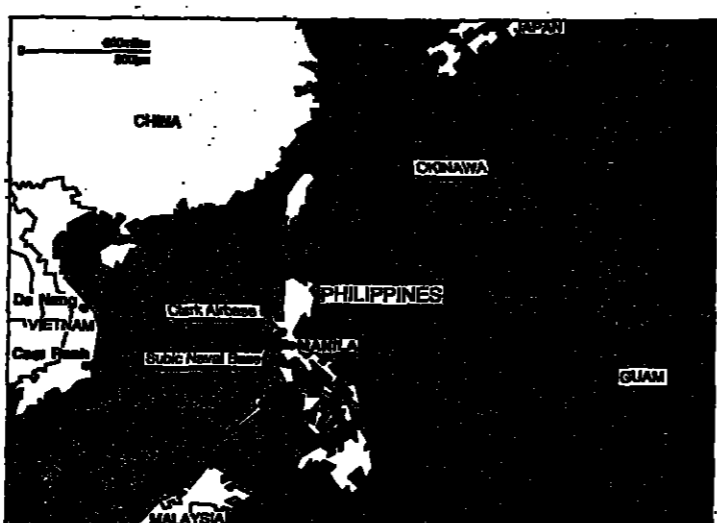
BY RICHARD GOURLAY IN MANILA

THE Philippines army widened its net of roadblocks around Manila yesterday in a desperate effort to recapture the leader of a coup that narrowly failed to topple President Corason Aquino last August.

The future of the US bases in the Philippines may be in doubt, writes Richard Gourlay

Filipinos ponder price of real independence

THE American military bases in the Philippines lie heavily at the heart of relations since the Second World War between the US and its former colony.



anti-Americans or leftwingers - the issue is that the new democracy's hunger for greater independence is incompatible with US bases on Philippine territory.

China Sea and the approaches to the so-called "choke points" for shipping - the Malacca, Sunda and Lombok Straits.

Among four other small bases in the Philippines is the crucial San Miguel communications base which forms part of a global network sending low frequency messages to the US nuclear submarines fleet.

Although the talks will probably build down to a painful haggle over money, the Philippine Congress has produced one wild card. Last week the Senate defence and foreign relations committees approved a bill that will implement a provision in the constitution banning nuclear weapons from Philippine territory.

Senator Wigberto Tamada, the bill's chief proponent and a staunch nationalist, says the provision is designed to create a "New Zealand situation" in which the US would have to pledge that its visiting ships are not nuclear armed.

Opposition party backs deal with Mugabe

By Tony Hartman in Harare

A SPECIAL congress of Mr Robert Mugabe's opposition Zanu party in Zimbabwe has ratified last December's unity agreement with President Robert Mugabe's majority Zanu-PF party.

More than 8,000 delegates at the meeting in Harare at the weekend voted unanimously for the unity deal.

The Zanu congress will be followed by a similar meeting of Zanu-PF on Saturday. This will seal the unity pact and open the door to a unity congress of the two parties, signalling the setting up of a one-party state.

At the congress Mr Mugabe, now one of three senior ministers in President Mugabe's cabinet, said that the unity agreement would be a landmark in the fight against South African apartheid.

The congress ratification was little more than a formality since there has been no open criticism of the unity agreement from within either party.

Moreover, there have been no reported incidents of hostility in the western province of Matabeleland since the agreement, underlining the Zanu-PF expectation that the unity agreement would bring an end to dissident activity in Matabeleland, where Zanu is the dominant party.

Over the past five years, the dissidents, mainly disgruntled former members of Zanu's military wing, have damaged property in parts of Matabeleland and murdered many more white farmers than were killed during the independence war of the 1970s.

Political analysts say that the real test of the unity deal will come when the united party has to choose its leadership and elect its officials.

Pace of growth in Turkey raises overheating fears

BY JIM BODGENER IN ANKARA

TURKEY'S economy grew by 7.4 per cent in terms of gross national product (GNP) in 1987, according to the State Institute of Statistics (SIS). The news comes at a worrying time for the government, faced with overheating in the economy and soaring inflation.

This third and final estimate by SIS is higher than the 6.8 per cent forecast in autumn and far higher than the 5 per cent originally targeted.

Growth was again spurred along by industry, reflecting its increasing predominance over agriculture since 1980. Industrial expansion, however, slowed to 9.7 per cent compared with 11.1 per cent the previous year.

The mid-boom in construction on the back of major infrastructure projects and the government-sponsored mass housing programme, which has stoked demand for consumer durables and raw materials, appears to be slowing.

The GNP growth indicates that a surge in domestic demand - starting in 1986, when GNP grew 8 per cent - carried through into 1987. In addition, economic controls were relaxed in the run-up to the election, leading to over-spending, excessive borrowing, a widening budget deficit and a year-end inflation rate of 66 per cent.

The problems set off a run on the lira in the unregulated foreign exchange market early this year. The government's reaction included an increase in the deposit rate designed to squeeze

RELATIONS between Iraq and Turkey have chilled following Ankara's refusal to grant Baghdad further credit in 1988, writes Jim Bodgener in Ankara.

A trade protocol signed on Sunday during a visit to Baghdad by Turkish Prime Minister Mr Turgut Ozal has ended the use of letters of credit in trade between the two countries.

Outstanding Iraqi debts to Turkish creditors already total \$1.8bn. The protocol sets a ceiling on outstanding credit of \$1.4-billion. Turkish businessmen fear that trade with Iraq could be halted this year.

Foreign exchange out of the banking system and exports.

So far the medicine appears to be working, as the differential between free market exchange rates and the central bank's daily tariff has stabilised at about 8 per cent compared with 20-25 per cent at the peak of the run on the lira. But many businessmen fear that what was described as a temporary expedient could last much longer.

There are signs of increasing strains in Turkish society as inflation erodes living standards. Even so, the government recently brought in further taxes on luxuries to fund education and health care, as well as a mandatory savings plan.

The time is ripe for the opposition Social Democratic Populist Party (SDP) to formulate new policies. The government's reaction to the election, according to observers, has pulled the level in opinion polls with the ruling Motherland Party.

Table with 5 columns: Country, Jan '88, Dec '87, Nov '87, Jan '87, % change over previous year. Includes Germany, France, Italy, Netherlands, Belgium, United Kingdom, USA, Japan.

Company Notices

NOVO

To the Shareholders of Novo Industri A/S
The Company will hold its Annual General Meeting on Tuesday April 26, 1988, at 4.30 pm at the Company's headquarters, Novo Allé, Bagsvaerd, Denmark

AGENDA:

- 1. The Board of Directors' report on the Company's activities in the past financial year.
2. Presentation of the Financial Statements, Auditors' Report and Annual Report as well as Consolidated Financial Statements.
3. Resolution concerning adoption of profit and loss account and balance sheet, hereunder discharge of Management and the Board of Directors from their obligations.
4. Resolution concerning application of profit according to the adopted Financial Statements.
5. Election of members to the Board of Directors.
6. Election of auditors.
7. A proposal from the Board of Directors to the effect that the Board of Directors until next year's Annual General Meeting be authorised to acquire up to ten per cent of the Company's share capital at a price between 90 and 110 per cent of the official quoted price at the time of acquisition.
8. Miscellaneous.

Admission cards and voting papers are available by postal application or for collection at the Company's office, Novo Allé, DK-2880 Bagsvaerd, Denmark, on all business days from April 8 to April 21, 1988, both days inclusive, between 10 am and 3 pm.

Where B Shares are registered by the Company under the holder's name, admission cards and voting papers will on application be issued directly to a shareholder (stating the nominal value of his/her shares). In respect of other shares, admission cards and voting papers are issued against production of the share certificates or any other documentation considered in the opinion of the Company to be satisfactory, or, a written statement from a bank approved by the Company to the effect that the shareholder has deposited share certificates identified by nominal value in the bank, that the shares bear no endorsement to the effect that they have been registered under the holder's name, and that the shares will remain deposited in the bank until the day after the Annual General Meeting for which the shareholder requests an admission card. Unless the shareholder specifies an address to which the admission card shall be sent, the admission card must be collected at the Company's office no later than April 25, 1988.

The Agenda, the complete proposals and the Financial Statements, Auditors' Report and the Consolidated Financial Statements will be available for inspection by the shareholders at the Company's office from Friday, April 8, 1988. The material is available from the Company or Morgan Grenfell & Co. Limited, New Issues and Registration Department, 72 London Wall, London EC2M 5NL, as from April 8, 1988. However, the material will be sent to the shareholders whose shares are registered under the holder's name in the Company's register of shareholders.

The dividend as approved at the Annual General Meeting will - after deduction of withholding tax - be sent to Novo's shareholders directly from the Danish Securities Centre (Værdipapir-Centralen) on Tuesday, May 3, 1988, if the share is registered there according to a new law in Denmark. If the share is not registered at the Danish Securities Centre, the shareholder should make arrangements either through a local bank or directly through a Danish bank in order to register the share.

Bagsvaerd, April 1988

Signed by The Board of Directors



NOTICE TO HOLDERS OF EUROPEAN SHARE

NOTICE TO HOLDERS OF EUROPEAN SHARE
NIPPON KOGAKU K.K.
NIPPON KOGAKU K.K., LTD.

Public Notices

SCOTTISH EXCHANGE LIFE ASSURANCE SOCIETY
Notice is hereby given that the ANNUAL GENERAL MEETING of the Society will be held in the City of Edinburgh on Thursday, 28th April 1988 at 10.00 am.

Art Galleries

OMEILL GALLERIES
an exhibition of Paintings by the
English artist Peter, Mark,
MONSTED (1859-1941) at 43a
Dale Street, St. James's, London
SW1Y 6DD
Tel: 01-929-7744 Mon-Fri 9.30-5

FINANCIAL TIMES

PUBLISHED IN LONDON FRANKFURT NEW YORK
Head Office: 1, Abchurch Lane, London EC4N 3DF. Telephone: 01-562 2200. Telex: 63989. Cable: FT.
Frankfurt: 1, Postfach 10 15 53, D-6000 Frankfurt 15, Germany. Telephone: 069-212-1. Telex: 420033. Cable: FT.
New York: 100 Nassau Street, New York, NY 10038, U.S.A. Telephone: 212-512-2000. Telex: 57-0100. Cable: FT.

INTERNATIONAL & BRITISH EDITORIAL, ADVERTISING & CIRCULATION OFFICES

American Editorial, Advertising and Circulation: 100 Nassau Street, New York, NY 10038, U.S.A. Telephone: 212-512-2000. Telex: 57-0100. Cable: FT.
London Editorial, Advertising and Circulation: 1, Abchurch Lane, London EC4N 3DF. Telephone: 01-562 2200. Telex: 63989. Cable: FT.
Frankfurt Editorial, Advertising and Circulation: 1, Postfach 10 15 53, D-6000 Frankfurt 15, Germany. Telephone: 069-212-1. Telex: 420033. Cable: FT.
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Tokyo Editorial, Advertising and Circulation: 1-10-1, Marunouchi, Chiyoda-ku, Tokyo 100, Japan. Telephone: 03-5561-1111. Telex: 320000. Cable: FT.

Notice to Bondholders of NIPPON KOGAKU K.K., U.S. \$60,000,000 4 per cent Convertible Bonds Due 1999

NOTICE IS HEREBY GIVEN THAT:
1. Effective as from 1st April 1988, NIPPON KOGAKU K.K., will change its English name to NIKON CORPORATION.
2. The above-mentioned Bonds will remain listed on the Luxembourg Stock Exchange under the Company's previous name but followed by the new name. Each new notice to Bondholders will contain both names.
3. The Bonds will not be stamped or exchanged for new Bonds.
4. A complementary legal notice as well as the amendments to the statutory documents have been lodged in Luxembourg.
5th April 1988

EUROPE PLUS INVESTISSEMENT S.I.C.A.V. 2, boulevard Royal, Luxembourg R.C. Luxembourg B 28380

Membres du collectif ont été informés par décision du conseil d'administration en date du 22 mars 1988, d'un accord en vue de modifier les statuts de l'entreprise.

Notice to the Holders of EUROPEAN INVESTMENT BANK Italian Lire 150 Billion Floating Rate Notes Due 1988

coupon No. 1 due from March 31, 1988 to September 30, 1988 at the rate of 11.25% p.a. 200/100 - par 1,000,000 - Nominal R. 2,997,100 - par 1,000,000 - Nominal

Clubs

For Share Index and Business News Summary, Telephone 246 8028 (number preceded by the appropriate area code valid for London, Birmingham, Liverpool and Manchester).

Invitations For Proposals To Purchase Assets Of Massey Combines Corporation

Peat Marwick Limited, Receiver of Massey Combines Corporation, pursuant to an Order of The Honourable Mr. Justice Côté of The Supreme Court of Ontario, will consider written proposals to purchase the following assets:

- Parcel 1: Rotary Combine Product Line and related parts supply business which includes Technology, Tooling, Inventory, Patents, Licences and other rights
Parcel 2: Conventional Combine Product Line and related parts supply business which includes Technology, Tooling, Inventory, Patents, Licences and other rights
Parcel 3: Back Product Line which includes Technology, Tooling, Inventory, Patents, Licences and other rights
Parcel 4: Other Product Lines which includes Technology, Tooling, Inventory, Patents, Licences and other rights
Parcel 5: Physical Plant, Land and Facilities
Parcel 6: Machinery and Equipment

Proposals must be in writing and shall be received by Peat Marwick Limited until NOON on Thursday, May 19, 1988.

All Proposals shall be submitted in accordance with Terms and Conditions of Sale which may be obtained from Peat Marwick Limited.

All Proposals shall be accompanied by a deposit of 5% of the total gross purchase price offered.

The highest or any Proposal shall not necessarily be accepted.

Acceptance of any Proposal by Peat Marwick Limited shall be subject to approval by The Supreme Court of Ontario.

An information package for prospective purchasers has been prepared solely for the convenience of prospective purchasers, and may be obtained from Peat Marwick Limited after execution of a satisfactory Confidentiality Agreement.

With respect to certain patents, licences and other rights, potential purchasers may be required to make certain arrangements with third parties.

To obtain further information and to arrange for inspection of the assets please contact:

Michael Craker Telephone # (416) 863-3825
David Matthews Telephone # (416) 863-3419
Telex Number (416) 863-3354
Telex Number 6627692. VERITATEM TOR

KPMG Peat Marwick

Peat Marwick Limited, Receiver, Massey Combines Corporation, P.O. Box 31, Commerce Court West, Toronto, Canada M5L 1B2



FT LAW REPORTS

Digest of Hilary Term cases

FROM JANUARY 12 TO JANUARY 29

TODAY FRANKFURT BECOMES A CANADIAN CITY.

Today Frankfurt becomes a Canadian City. It joins Amsterdam, Rome and Milan as a European gateway served by Canada's most successful new airline - Canadian Airlines International.

Starting with two flights a week to Vancouver, the Canadian schedule will build-up to offer a daily service between Frankfurt and Western Canada.

While you fly to Canada, we'll treat you to our world renowned standards of in-flight service including Canadian Business Class and our superlative First Class service.

Canadian Airlines International and its

partners serve more cities across Canada than anyone else, 162 to be precise, and is the only airline to connect Canada with five continents.

Try us. Fly us. To or from Germany or from the other 96 destinations that Canadian serve around the world. Air travel is suddenly being made great all over again.

Netherlands, Italy, Canada, USA, Hawaii, Mexico, Fiji, Australia, New Zealand, Peru, Chile, Argentina, Brazil, Hong Kong, Japan, Thailand, China and now Germany - your world is now Canadian!



Canadian Airlines International

Kleinwort Benson Ltd v Malaysian Mining Corporation Berhad (FT, January 13)

Kleinwort undertook to fund MMC Metals Ltd, a subsidiary of the Malaysian Mining Corporation Berhad, provided that the latter furnished a letter of comfort. The letter referred to a \$25m facility and stated: "It is our policy to ensure that the business of MMC Metals is at all times in a position to meet its liabilities to you under the above arrangements." By the time the letter had collapsed a facility of \$10m, by agreement, had been drawn but Metals had gone into liquidation. In holding that the letter of comfort was a binding contract, Hirst J stated that (a) Kleinwort clearly acted in reliance on it, agreeing to advance \$25m and then \$10m; (b) it was of paramount importance to Kleinwort that Metals should ensure that Metals was at all times in a position to meet its liabilities; (c) it had been treated as a matter of importance by Malaysian directors who had passed a formal resolution authorising acceptance of the facility.

The Alexion Hope (FT, January 13)

In the instant case a ship was deliberately set on fire by the shipowners. The mortgagee, unable to claim from the hull underwriters, sought to recover under its mortgage interest policy. Clause 1 of that policy provided: "This policy has to pay if an occurrence... cause (a) total or constructive total loss... and after... average adjustment having been passed, the assured is unable to recover from the vessel's hull underwriters." In dismissing an appeal by the mortgage interest insurers against a decision that they were liable, the Court of Appeal stated that fire in a marine policy was not confined to accidental fire. It included, as a matter of construction, a fire started deliberately by a stranger to the insurance, as were the shipowners in the present case. Moreover, the adjustment was "passed" when (i) an average adjustment had been issued, and (ii) the hull underwriters declined to pay.

Re State of Norway's Application (No 2) (FT, January 15)

In allowing an appeal by two witnesses, who had been ordered to give evidence in Norwegian proceedings concerning a claim against an estate there, the Court

of Appeal stated that jurisdiction under the Evidence (Proceedings in Other Jurisdictions) Act 1975 in respect of letters of request only arose if the English court was satisfied that the proceedings in the requesting court were either civil or commercial as defined in the Act. The Norwegian proceedings were concerned with "matiere fiscale", and as such were not proceedings sufficient to found the basic jurisdiction. The proper construction of "proceedings in any civil or commercial matter" in section 9, which would produce uniformity in the Convention and in the Act, had to accord with a generally acceptable international interpretation of those terms.

Colonial Bank v European Grain and Shipping Ltd (FT, January 15)

After the shipowners had assigned to the bank all earnings on their vessel, it was arrested by creditors. At the time of its arrest, the ship was chartered to charterers who had had to procure the on-shipment of the cargo, the costs of which exceeded the freight. In ascertaining the rights of the parties over the freight, the Court of Appeal stated that the shipowners' claim for freight had such a close link with the charterers' claim for non-performance, that the one could not properly be enforced without taking account of the other. Also, if the court had to ask itself what it should do to ensure fair dealing (see The Navfri 1978 1 QB 927, 974), the answer was that it would not have been fair, had the owners sued, to have allowed them to recover the freight without regard to the damage caused by their own wrongful repudiation. With regard to the position of the bank, the charterers would have had a valid defence by way of set-off if sued by the owners so that the bank's derivative claim had to fail.

The Jalambhan (FT, January 20)

The shipowners chartered The Jalambhan to the charterers as disponent owners under a time charter. Clause 40 provided that "charterers or their agents are authorised to issue and sign bills of lading as presented... on the master's behalf." The vessel was then chartered to a third party on back-to-back terms. In allowing the shippers' appeal against an arbitral decision that

the owners were not bound by the fact that freight pre-paid bills of lading had been issued after the vessel had been withdrawn for non-payment of hire, Hirst J stated that the shippers were in a position to establish an unbroken chain of authority on two alternative bases: (i) by virtue of clause 40 and (ii) the head charter contained a liberty to sub-charter so that the owners being bound by the bills of lading under which the cargo was loaded, were not entitled to say freight or quantum was over and above the sums pre-paid by the shippers.

Bank Mellat v GAA Development Construction Company (FT, January 20)

In an arbitration, governed by the International Chamber of Commerce rules, concerning a force majeure clause, the majority of the arbitrators favoured the position of the defendants that the contract had become impossible to perform. After reconsideration at the behest of the ICC, which asked for strengthened motivation of two issues, the majority view was accepted. In refusing Bank Mellat's application that the award be set aside on the grounds of misconduct because the reasons had merely been elaborated on, not changed so that there was no need to reconvene, Steyn J stated that in the real world of international commercial arbitration, arbitrators often had to communicate with one another by telephone, telex or letter. A ruling that the chairman should have called a meeting months after the hearing would impose unrealistic, unworkable and time-wasting procedures on the arbitrators.

Naviera Moger SA v Societe Metallurgique de Normandie (FT, January 26)

When the charterers presented bills of lading to the master, he signed them without qualification notwithstanding that the cargo of wire coils had already rusted. The shipowners sought reimbursement from the charterers after having settled the claim of the cargo's receivers. The Court of Appeal dismissed the shipowners' appeal against a decision of Stoughton J, who had upheld the arbitrators' decision that though it had been a breach of contract for the charterers to have tendered a clean bill of lading in respect of goods, not in apparent good order, the master's intervening negligence broke the

connection between that breach and the owners' loss.

Banque Keyser Ullman SA v Skandia (UK) Insurance Co Ltd (FT, January 27)

In an agreed settlement of an action where the insured banks claimed against the insurance companies under policies arranged by Notcutt, one substantive issue was outstanding, namely the credit that the banks ought to have given for £10.5m paid by Notcutt under the terms. The settlement's terms expressly provided that recovery against Notcutt would be in full and final settlement of the banks' claims "including claims for costs". Mr Justice Steyn stated that the credit to be given by a plaintiff in favour of one tortfeasor in respect of recovery from another tortfeasor could not be a matter for judicial discretion. The principle was that where a plaintiff, who had received payment from one of two tortfeasors, established an additional separate claim against him, the payment was allocated first to that claim, and credit had to be given in favour of the second tortfeasor only for the excess necessarily referable to the overlapping claim (see CAV Tomesend 1894 27 B & L 26 and The Mortgage 1899 P 1).

Overseas Union Inc v AA Mutual International (FT, January 28)

The issue in the present application for a stay of proceedings under s.1 of the Arbitration Act 1975 was whether claims for a collateral agreement and rectification of an insurance contract had to be referred to arbitration. The material words in the present contract were "all disputes and differences... in respect of this reinsurance." "Disputes or differences" meant disputed claims together with any derived meaning which might be derived from the use of "differences" as well as "disputes". The contract was a reinsurance transaction partly recorded in writing. There was no indication that the parties intended the arbitrators to have no jurisdiction outside the written terms. Evans J stated, and there were good commercial reasons why they should have envisaged that all disputes concerning the transaction generally would come within the term "in respect of this reinsurance". This digest will continue on April 8, 12 and 13.

Aviva Golden

Georgia. Europe's New U.S. Headquarters.

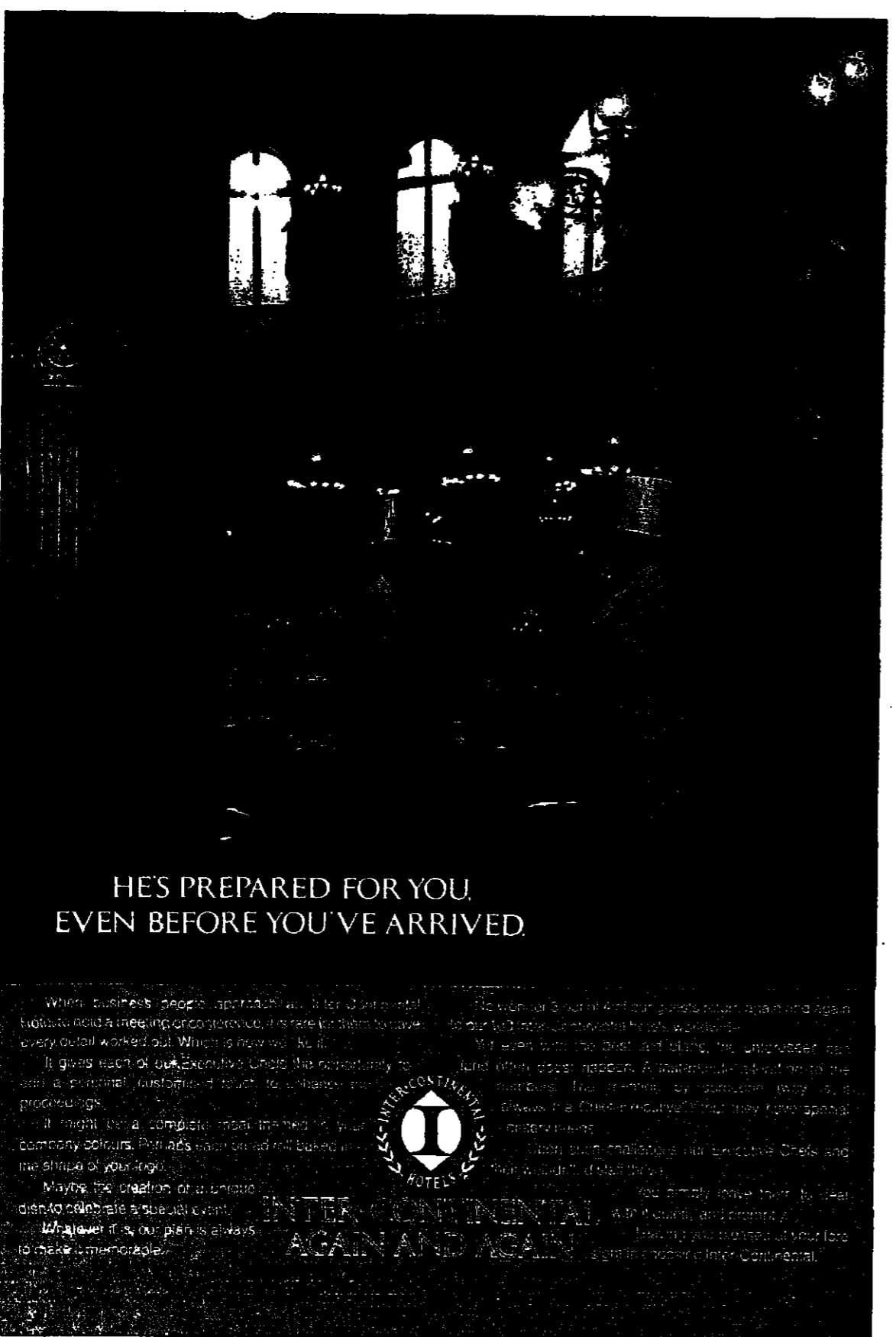
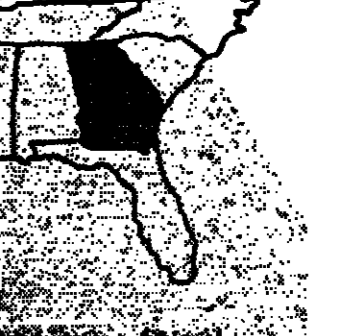


Over 500 companies from nearly every major European country are located in Georgia. A primary reason is that our state is in the center of the Southeastern business region in all of the United States. Atlanta's Hartsfield International Airport, the world's busiest, means you can get here in a matter of hours on a direct flight from major European business centers. And Georgia's proximity to the U.S. population means your products and services are just two hours away from 200 million of the U.S. population. To complete a highly efficient transportation system, we've developed two advanced deep water ports, as well as excellent rail and highway systems that provide quick access to the free world's largest market.

Georgia's government does everything possible to make Europe's business feel at home, too. Our corporate tax rate hasn't increased since 1969. The costs of land, construction and labor in Georgia are among the nation's lowest. Yet the productivity growth rate of our work force is 36% higher than the U.S. average.

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INTERCONTINENTAL HOTELS AGAIN

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Notice of Redemption

Florida Federal Savings International Finance, N.V.  
12 3/4% Guaranteed Bonds due May 15, 1989

NOTICE IS HEREBY GIVEN that, pursuant to Section 3.01(a) of the Indenture dated as of May 15, 1984 (the "Indenture") among Florida Federal Savings International Finance, N.V. (the "Company"), Florida Federal Savings and Loan Association (the "Guarantor") and Citibank, N.A., as Trustee (the "Trustee"), the Company has elected to redeem and will redeem on May 15, 1988 (the "Redemption Date") all of the outstanding 12 3/4% Guaranteed Bonds due May 15, 1989 (the "Bonds") at the Redemption Price of 100% of the principal amount thereof (the "Redemption Price").

On and after the Redemption Date, the Redemption Price will become due and payable upon presentation and surrender of the Bonds with all unattached coupons appertaining thereto at the office of the paying agents listed below. In the event that any unattached coupons fail to be presented, the amount of the missing coupon(s) will be deducted from the Redemption Price.

On and after the Redemption Date interest on the Bonds shall cease to accrue, and all coupons maturing after May 15, 1988 shall be void. Coupons maturing on May 15, 1988, should be detached and surrendered for payment in the usual manner.

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FLORIDA FEDERAL SAVINGS INTERNATIONAL FINANCE, N.V.

Dated: April 5, 1988

Under the United States Interest and Dividend Tax Compliance Act of 1983, any payment made within the United States, including payments by transfer to an account maintained by the payee with a bank in the United States may be subject to reporting to the United States Internal Revenue Service (IRS) and to backup withholding of 20% of the gross proceeds if payees not recognized as exempt recipients fail to provide the paying agent with an executed IRS Form W-8 in the case of non-U.S. persons or an executed IRS Form W-9 in the case of U.S. persons. Those holders who are required to provide their correct taxpayer identification on Internal Revenue Service Form W-9 and who fail to do so may also be subject to a penalty of U.S. \$50. Please, therefore, provide the appropriate certification when presenting securities for payment if payment within the United States is sought.

UK NEWS

Talks to end Dover strike likely to resume this week

BY CHARLES LEADBEATER IN LONDON AND GEORGE GRAHAM IN PARIS

TALKS to end the strike by 2,300 Dover-based seamen employed by P&O European Ferries are expected to resume later this week. P&O executives and officials of the National Union of Seamen said it was likely that talks would resume at the Arbitration and Conciliation Service (Acs), after informal contacts with the service over the weekend. The dispute has disrupted car and freight ferry sailings from the port for the last eight weeks. Both sides said they understood there was a constructive basis for a resumption of talks over the company's plan to change working practices, which involves several hundred redundancies. The company says its aim of reducing the number of crew per ship from 3.5 to 2.5 is essential if its cross channel ferries are to compete with the Channel Tunnel. The union said it understood a new basis for negotiations would emerge over the next few days. However, the company said

constructive negotiations would have to concentrate on a more thorough examination of proposals drawn up by Acs, which the union rejected during talks last week. It said the proposals included a reduction in the number of redundancies from 400 to 382, a cut in the maximum shift length from 7 1/2 to 7 hours, generous redundancy terms, profit sharing and a simplified pay structure in which some bonus payments would be replaced by an improved basic rate of pay. P&O said it still hoped for an agreement with the union, and had no plans to bypass the NUS port committee at Dover by appealing directly to the workforce. It played down the significance of suggestions by Mr Peter Ford, the company's chairman, after the breakdown of talks on Friday, that the port committee no longer represented the views of its members. Seamen on Sunday voted over-

whelmingly to continue the dispute. Quays of traffic at Dover and Calais, which built up on Friday, were cleared over the weekend after French seamen employed by Sealink returned to work on Saturday. Dover Harbour Board said ferries sailing in and out of the port had spare capacity. At Dunkirk, however, it may take a few days to absorb the waiting lorries. NUS officials said the agreement between the SNCF, the state-owned rail company which operates the French arm of Sealink, and the French unions, should be used as a model for P&O. The agreement includes longer working hours but firmer employment guarantees. SNCF had wanted to increase the working hours of 85 ferry employees, mostly in the catering services, by 600 hours a year. The final agreement involves an increase of 130 hours a year for 150 employees.

Full funding likely for NHS pay rises

BY PETER RIDDELL, POLITICAL EDITOR

THE GOVERNMENT is likely to finance fully the additional costs of this month's pay awards not only for nurses but also for doctors and other medical staff. The pay review bodies for nurses, allied medical professions, doctors and dentists are expected to report in about 10 days' time and the Government hopes to make an announcement to parliament on April 21, or, if there is any slippage, the 28th. Ministers do not yet know the detailed recommendations of the reports, but provided they are along the expected lines there is no doubt that the Treasury will provide the necessary money from the £3.5bn reserve for the 1988-89 financial year. This could total at least £400m-£500m. Full funding of the awards is regarded by ministers as inevitable in the current political climate, given the recent trade union and opposition parties' campaign over the National Health Service. The expected funding will cover the extra costs to health authorities beyond what has already been provided for the coming year within cash limits which assume a 4.5 per cent inflation rate. This will avoid a further squeeze on the authorities' costs. Full funding is likely to extend beyond nurses' awards because the pay of allied medical professions like radiologists and similar specialist staff, as well as doctors and dentists, is contained in the same overall cash allocations to health authorities. The nurses pay award will involve substantial increases for some groups who are in short

supply, such as those who care for children and terminally ill patients. This is part of a new pay and grading structure proposed by the Department of Health and Social Security in agreement with the Treasury. The recommendations of the nurses' review body seem certain to be implemented in full, but it is possible that the proposals for allied professions and doctors and dentists may be delayed and phased, even though they are likely to be fully funded by the Treasury. Ministers hope that full funding of the nurses' pay award will give them a breathing space while the ministerial review of the National Health Service is completed, possibly by the autumn. Implementation of the nurses, midwives and health visitors' pay award last year cost £477m, while the award to professions related to medicine added £32m, and the doctors' and dentists' award cost £230m. Of this total of £716m, some £290m was provided for within original cash limits, £266m came from the Treasury and the health authorities were required to find the extra £230m from their own resources. However, health authorities are likely to argue that fully funding the nurses' pay awards will only deal with part of their financial problems. The cross-party social services committee of members of parliament has recommended an additional allocation of £1bn over the next two years, although this proposal has been rejected by the Government.

Row may delay TV test in Commons

BY PETER RIDDELL, POLITICAL EDITOR

THE PLANNED start of the experimental televising of the House of Commons this autumn may be delayed by a growing controversy about who should control the cameras. Several senior members of Parliament, including supporters of televising proceedings in the Commons are arguing that control should be taken away from the BBC and ITN and be directly under the authority of the House, either through a special Parliamentary Television Unit or by agreement with independent facilities company. This issue is at the top of a list of 90 questions contained in a memorandum to the 20-strong select committee of MPs which met for the first time last week to consider the implications of televising the House. The memorandum raises the question of whether the operation of the cameras should be under the control of the broadcasting authorities or the House of Commons, as the written record, Hansard, now is. Broadcasters currently have a monopoly of the relevant expertise, so if a separate parliamentary unit were set up a choice would have to be made between seconding staff from the BBC and ITN and employing people directly. This issue threatens to delay the work of the committee. MPs must report by July if broadcasters are to have time to install equipment during the summer recess before the experiment starts in the autumn. This now appears an increasingly tight timetable, although an interim report is possible.

Power dispute

By Max Wilkinson

A MAJOR argument has broken out among the UK's 12 area electricity boards about control of the industry when it is privatised in two to three years' time. The dispute centres on the power and independence to be given to the national transmission grid which will be taken from the Electricity Generating Board (EGGB) and given to the privatised boards. At present the grid collects electricity from power stations and supplies it in bulk to area boards. Grid controllers can order power stations to switch in and out of the system as they deem it necessary. The boards agree that the new grid company must continue these functions but conflict has emerged as to whether the grid should be free to become an active wholesaler of electricity or be restricted to technical functions.

Teachers' body will seek role in education reform

BY DAVID THOMAS

THE NATIONAL Union of Teachers, Britain's biggest teaching union, yesterday decided to set up an independent, broadly-based Education Commission to try and influence implementation of the Education Reform Bill. The decision at the NUT's annual conference in Scarborough, in the north east, was taken in the face of strong opposition from the union's left wing. It indicates that NUT leaders realise that the main parts of the bill are almost certain to be enacted, although they still hope amendments will be made during its passage through the House of Lords, the upper house of Parliament. The commission forms a key part of the attempt by NUT leaders to shift the tactics of the 185,000-strong union away from the campaigns of strike action which have disrupted schools in recent years. These are widely viewed in the union as having been ineffective and the cause of an exodus of members from the union. The NUT is planning to invite representatives of parents, school governors, industry, commerce,

trade unions and the teaching profession to join the commission. The union's leaders stressed that they do not want the NUT to dominate the body. Mr Peter Griffin, on behalf of the national executive, said: "This strident Prime Minister must be told there is an alternative view which is protective of the parents and teachers of this country." He added: "Here is a way forward because we need alliances and we need authoritative allies." Left-wing delegates said the decision to establish a commission - "a nebulous national body whose remit and principles are both unclear" - was conceding victory to the Government. The left particularly criticised the union's leaders for wanting representatives of industry and commerce on the committee. However, the conference defeated by 38,000 votes an attempt by the left to commit the union to militant campaigns including strike action against the bill. The hard left doubled its representation on the union's 44-strong executive from about five to about 10.

FINANCIAL TIMES CONFERENCES

THE NEWSPAPER INDUSTRY - A PERSPECTIVE OF THE NEXT FIVE YEARS  
London, 12 & 13 April 1988

As part of the celebrations to mark the Centenary of the Financial Times, the Newspaper is holding a major conference to look at the future of the newspaper industry both in the United Kingdom and abroad. The eminent panel of speakers include Mr Lee Huesner, Publisher of the International Herald Tribune, Mr Ko Morita, President - Chief Executive Officer of the Nihon Keizai Shinbun, Mr Bill O'Neill, Managing Director of News International and Mr Ralph Ingersoll, Chairman of the Board of Ingersoll Publications.

WORLD PULP & PAPER  
London, 6 & 7 June 1988

The Financial Times and the European Paper Institute have joined forces to hold this high-level conference on World Pulp and Paper. Under the chairmanship of Mr John Worlidge, Chairman and Chief Executive of Wiggins Teape, Mr Red Cavaney, President & Chief Executive Officer of the American Paper Institute and Mr David Clark, Executive Director of the European Paper Institute authoritative speakers from around the world will discuss the prospects and opportunities facing the industry. Contributors include Mr Bo Berggren, President & Chief Executive Officer of STORA, Mr George Fosy, Chairman & Chief Executive Officer of Resap Enterprises, Mr Francisco Gros, President of Aracruz Celulose, Mr Hugh Fletcher, Chief Executive Officer of Fletcher Challenge, Dr Hartwig Geginat, Chairman of the Board of Feldmühle, Mr Jorge Nunes, Chairman of Torres Hostench and Mr Pentti Rautalahti, President of Valmet.

DOING BUSINESS WITH EASTERN EUROPE  
Budapest, 21 & 22 June 1988

The Soviet Union is embarking on a programme of reform which will, if it is sufficiently radical and durable, provide interesting opportunities for Western industrialists and bankers. The impetus for change exists in some of the other eastern European countries and the Gorbachev reforms cannot but have an impact on them all. This Financial Times conference, called in association with the National Bank of Hungary is intended to examine the importance of what is happening in Eastern Europe and assess the climate for East/West business now and over the next five years.

A complete programme for the conference will be issued by mid-April. Among the early speaker acceptances were Mr David Melor MP, Minister of State for the Foreign & Commonwealth Office, Professor Josef Bejatek, Director of the Institute of Economic Sciences at the Polish Academy of Sciences, Dr Werner Polak, Chairman at Deutsche Auslandsbank A.G., Mr Janos Fekete, First Deputy President, National Bank of Hungary, Mr Tamas Beck, Chairman of the Hungarian Chamber of Commerce, Mr Alexaritz Misiuiev, Managing Director of GARANT (USSR) and Dr Anders Aslund, the Swedish diplomat, currently with the Kennan Institute for Advanced Russian Studies in Washington, DC.

All enquiries should be addressed to:

The Financial Times Conference Organisation, 2nd Floor, 126 Jermyn Street, London SW1Y 4JL. Tel: 01-925 2323 (24-hour answering service). Telex: 27347 FT CONF G Fax: 01-925 2125

NOTICE

To the Holders of the following securities issued by the United Mexican States:

- 8 3/4% External Sinking Fund Bonds Due December 1, 1997
- 8 3/4% per cent. Bonds 1991
- 10% External Bonds Due 1980 (Extendable by holder to 1990)
- 9 1/2% External Bonds Due March 1, 1981 (Extendable by Holder to March 1, 1991)
- 15% External Bonds Due 1988
- 16.45% Notes due 1992
- 18 1/2% Retractable Bonds Due 1997
- 16 1/2% per cent. Loan Stock 2008

NOTICE IS HEREBY GIVEN that on March 30, 1988 the United Mexican States issued its Collateralized Floating Rate Bonds Due 2008. These Bonds are collateralized as to payment of principal only by the pledge to Morgan Guaranty Trust Company of New York, as Collateral Agent, of a zero-coupon United States Treasury bond maturing on March 30, 2008 and having a face amount equal to the principal amount of the Bonds. Pursuant to the terms of the Collateral Pledge Agreement, the holders of the Bonds will have no recourse to the collateral prior to March 30, 2008.

Simultaneously, the United Mexican States pledged to the holders of its outstanding securities identified above, pursuant to separate Collateral Pledge Agreements with Morgan Guaranty Trust Company of New York, as Collateral Agent, zero-coupon United States Treasury obligations and receipts evidencing interests in United States Treasury obligations, having a face amount at least equal to the outstanding principal amount of such securities, as security for the payment of principal of such securities. Pursuant to the terms of these Collateral Pledge Agreements, holders of the securities will have no recourse to the collateral prior to March 30, 2008. Copies of the separate Collateral Pledge Agreements relating to each issue of outstanding securities may be inspected by holders of such securities at the office of the Collateral Agent at 30 West Broadway, New York, New York 10015 or at the office of the Fiscal Agent and the Principal Paying Agent, if any, for each of the above-listed securities.

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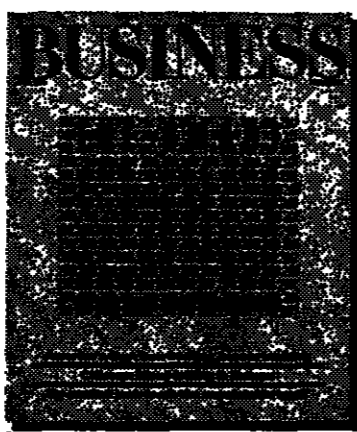
Some of them may sound a little obscure today, but from our list will undoubtedly emerge the Hansons and BTs of tomorrow.

Which ones? And why?

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Also we'll be taking a look at the extraordinary cozings and gongs at Citicorp, Birmingham, big yachts in the America's Cup, huge container ships from Taiwan, junk food. And as a perk we feature a special report on company cars.

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Looking to re-locate? Here's a list of all the cities on the south coast with Government Assisted Area Status.

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UK NEWS

# Power sell-off 'could threaten fast reactor plan'

BY DAVID FISHLICK, SCIENCE EDITOR

BRITAIN'S £100m-a-year fast reactor programme could be a casualty of privatisation plans for the electricity supply industry.

Executives at the Central Electricity Generating Board say privately that the programme no longer has a high priority in the board's long-term thinking.

Leaders of the nuclear industry fear that a privatised generating industry with no statutory obligations for ensuring long-term supplies will no longer feel strongly committed to a reactor it may not order as a series for a further 30 years.

The most serious effects of cuts in the programme would be in the Scottish Highlands, where more than 2,000 work at the nuclear research centre at Dounreay.

The fast reactor is based on technology which could make Britain independent of uranium imports by using the national stocks of "depleted" uranium from current nuclear activity.

As with the space programme, industry's unwillingness to invest could lead the Government to conclude that commercial prospects are too remote to justify its present level of investment.

Last year the CEBG contributed about £50m towards the national fast reactor programme and was planning to increase it to £50m. The balance of funding comes almost entirely from the Energy Department through contracts agreed with the UK Atomic Energy Authority, which manages the programme.

The Department of Energy's recent white paper on privatisation, although promising protection for non-fossil electricity sources, makes no specific commitment to the fast reactor, the authority's biggest development programme.

The reactor has come under pressure from the Cabinet Office where technical advisers are scrutinising all main Government expenditure on research and development.

Mr John Collier, authority chairman, has been warned that his programme, like the one for space, must find more commercial support if it is to be maintained near its present level in the 1990s. Fast reactor technology has no defence implications and can expect no backing from the Ministry of Defence.

The authority has already embarked on plans to create a nuclear research service for Scottish industry at its Dounreay establishment.

Before the white paper, the nuclear industry believed there was a good chance that the CEBG would back plans for a new phase of fast-reactor development, involving construction of a demonstration reactor of commercial size with capacity of more than 1,000 megawatts during the 1990s.

It would be built as part of a European collaboration involving France and West Germany, with backing from several European electricity companies.

The nuclear industry in Britain claims a big fast reactor could be built for a "relatively small" premium in capital cost compared with one more in a series of pressurised-water reactors.



Neil Kinnock: enlisted support of major union leaders

## Labour's plans for election opposed

By Peter Riddell, Political Editor

PROPOSALS to increase the involvement of rank-and-file Labour members in the party's election for the party leader and deputy leader face opposition at a meeting of its national executive later this month.

Mr Neil Kinnock, the party leader, has suggested that the executive should consider draft guidelines on the balloting of members by local parties before they decide how to cast their votes on the leadership at this year's conference.

This idea is opposed by hard-left supporters of Mr Tony Benn and Mr Eric Heffer, who are standing as leader and deputy. They see it as an attempt to change the rules after the contest has started.

The plan for the balloting of members about their views on the leadership contest follows last year's party conference decision in favour of a one-member-one-vote system of voting for the reelection of sitting MPs, and selection of candidates.

This is, however, within the framework of an electoral college giving votes to the unions and other associated bodies. Any guidelines would only be after this year's conference.

Mr Kinnock and Mr Roy Hattersley, the deputy leader, have quickly enlisted the support of major union leaders for their re-election in face of last week's intervention from Mr John Gough, the party's energy spokesman.

Mr Ron Todd of the transport workers has pledged his personal backing, though not yet that of his executive. Support for the existing leadership has also been promised by Mr John Davies of the shopworkers, Mr Bill Jordan of the engineers, and Mr John Edmunds of the General Municipal and Builders.

There are moves to make a minority challenge where dissenting members are breaching the £3.50 a sq ft level below which property companies do not consider industrial development worthwhile, he says. "We are buying land on behalf of industrial developers for the first time in 10 years. There is definitely money coming into the region."

Mr Gough says interest in the West Midlands has been stimulated by the recent strength of local industry, which has buoyed demand for premises, and by the shortage of development opportunities in the severely competitive property market of the south-east.

Site preparation is taking place in many parts of the West Midlands in preparation for industrial development. Mr Gough says, and his firm is on the verge of announcing half a dozen schemes. He expects about 250,000 sq ft of new industrial accommodation to be created in Birmingham during the next year.

Three of the schemes to be announced by Chesire Gibson are by the London-based Canadian Business Parks, which has committed itself to three industrial warehouse developments.

## Midlands industrial property 'recovering'

BY RICHARD TOMKINS, MIDLANDS CORRESPONDENT

THE WEST MIDLANDS is on the brink of a significant recovery in its industrial property market triggered by an upsurge in investment by London developers, according to one of the region's leading firms of chartered surveyors.

Cheshire Gibson of Birmingham says sales worth millions of pounds have been agreed with London property companies for industrial investments this year and that the trend is set to accelerate.

The firm's assessment will be welcomed in the West Midlands because the region has been blighted since the recession of the early 1980s by large expanses of vacant or derelict industrial premises.

The surfeit of industrial property has combined with low demand to hold rental levels down and discourage developers from erecting the type of modern industrial premises which are needed to attract new employees and help existing businesses expand.

Mr Rod Gough, a partner at Cheshire Gibson, says his firm has dealt with industrial property sales to London companies totalling more than £14m so far this year and that the volume of deals is an indication of strong interest by London companies in the West Midlands.

Rental levels are breaching the £3.50 a sq ft level below which property companies do not consider industrial development worthwhile, he says. "We are buying land on behalf of industrial developers for the first time in 10 years. There is definitely money coming into the region."

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## Morgan Grenfell stays top

BY MARTIN DICKSON

MORGAN GRENFELL just managed to hold on in the first quarter of 1988 to its long-time position as the leading financial adviser in UK takeover bids, according to a survey by Morgan & Co. in London, published in the Financial Times group.

Morgan advised on seven completed bids worth £3,071m for publicly quoted companies. That was just ahead of Kleinwort Benson, with five bids worth £2,960m. Shearson Lehman, the US investment bank, with three bids worth £2,820m; N.M. Rothschild with seven bids totalling £2,740m; Schroder Wagg with three bids worth £2,650m and Lazard Brothers with three bids worth £2,140m. A bidder's advisers are only included when they appear on the offer document.

Morgan's tally included acting for the Consortium in its bid against Barker and Doherty's £22m bid. Dea's primary adviser in this battle was Lazard Brothers. Barker was advised by Kleinwort Benson.

This battle was one of two "mega-bids" which dominated the quarter. The other was the £2.5bn bid by British Petroleum (Schroders was the named adviser) for Britoil (advised by Rothschild and Shearson).

## Seeking millions from acid rain battle

BY MAURICE SAMUELSON

A LITTLE-KNOWN company controlled by British businessmen hopes to earn tens of millions of pounds from Continental Europe's accelerating drive against pollution from acid rain.

It plans to focus on a novel process for removing most emissions of nitrogen oxide (NOx) from coal-fired power stations and factory chimneys. NOx is believed to cause the alarming "die-back" of forest trees in central Europe.

West Germans plan to remove polluting nitrogen emissions from power stations while they clean up emissions of sulphur dioxide. Those are believed to cause much of the acid rain damage to lakes and waterways.

The London-based European operation is headed by Mr Peter Kinnaird, a British engineer and businessman. The company claims that its system is cheaper, more efficient, and easier to install and operate than the established Japanese technology.

NOx-OUT is based on the introduction of urea-based chemicals into the combustion process. It is believed to be more efficient than preliminary steps being taken in British power stations.

These merely modify flame characteristics by mechanical means. Fuel-Tech says its technology complements, rather than replaces, the alterations in burner alignment being implemented by the Central Electricity Generating Board.

As the biggest single source of pollution, power stations and factories are regarded as the easiest route to pollution control.

Following promising full-scale trials of its process, Fuel-Tech hopes that it will be rapidly applied in West Germany, Switzerland, Austria and Sweden.

The technology is to be promoted in those countries by a joint venture launched this week between Fuel-Tech's West German subsidiary and Lurgi, the West German chemical company, the Metzler bank of Frankfurt.

West Germany is trying to meet a European Commission call for cutting NOx emissions from power stations to only 200 milligrams per cubic metre by 1994. This compares a reduction of up to 90 per cent of present levels. It would then aim for similar standards in industry by 1995.

Fuel-Tech says capital costs of installing its technology are £15-£30 per kilowatt of installed capacity, compared with £50-£150 for the rival Japanese process.

# Japanese criticise British component suppliers

David Thomas on a report outlining the obstacles to increasing local content

EUROPEAN manufacturers in industries subject to the full whirlwind of Japanese competition have long seen the steadily growing ranks of Japanese plants in Europe as a Trojan horse - another tactic in the continuing Japanese onslaught on Europe's manufacturing base.

The Japanese factories, so the objection goes, are little more than "screwdriver" operations aimed at appeasing European public opinion. Most of the skills needed to make video recorders, photocopiers and so on remain in Japan, because nearly all the components are imported from the Far East.

Alarmed by tough new anti-dumping legislation from the European Commission aimed at screwdriver plants, and prodded by the rising yen, many Japanese companies are becoming more aware of the need to build up local content.

One of the clearest signs of this is a study jointly initiated by the British and Japanese governments. The purpose of the study, described in a letter to most of the large Japanese factories in Britain, "is to seek to improve the performance of UK component suppliers, in order to facilitate increased UK sourcing of components."

The consultancy arm of Coopers & Lybrand, the accountancy firm, has been asked by the two governments to recommend an action plan by June to achieve precisely that. The study has already completed the first stage of the project: the fullest survey attempted of the component purchasing patterns and intentions of Japanese manufacturers in Britain.

The confidential report of the survey gives a detailed breakdown of sourcing by companies, because they are commodity products for which the economies of scale available in the Far East are important.

The report also points to the failure of Japanese companies to shift design and engineering centres to Europe as a structural hurdle for UK companies wishing to sell components to Japan.

But the main burden of the report is the Japanese perception of poor performance by UK suppliers. Although some Japanese companies acknowledged recent improvements, they stressed problems which they believed

Category	Demand (000's)	EC content (000's)	% (000's)	UK content (000's)	%
Tubes	22,420	18,708	81	16,880	58
Integrated circuits	18,000	7,282	41	4,822	28
Discrete semiconductors	4,327	1,790	40	118	2
Electronic sub-assembly	14,299	12,087	85	6,139	43
Capacitors	1,172	1,120	95	0	0
Resistors	1,120	300	27	0	0
Printed circuit board	6,148	3,394	55	3,394	55
Interconnect	6,428	3,199	49	1,330	21
Transformers	7,287	5,081	70	4,381	61
Switches	1,731	821	48	0	0
Other electronic	24,628	11,728	47	6,487	26
Motors	4,328	3,218	74	3,218	74
Plastic parts	11,898	11,488	96	4,288	36
Other mechanical	44,348	12,488	28	9,788	22

Source: Coopers & Lybrand

were the main barrier to more component sales. These included:

- Quality. The quality of UK components was generally lower than in Japan. Quality improvement programmes "needed to be somewhat superficial and not effectively implemented down to shop floor level."
- Prices. Prices were considered high for consumer products, 10-20 per cent more than the cost of components brought from Japan, and for office products, whose suppliers seemed used to defence markets, much higher.
- Delivery. British suppliers often failed to meet delivery dates, which were quoted in weeks, whereas Japanese suppliers kept to their delivery dates, which were cited in days.
- Marketing. Japanese companies have had to search for British suppliers, often finding them nearby, unaware that a potential customer existed. When contacted, British suppliers took several weeks to respond, compared with the few days expected by Japanese companies.
- The Japanese amplified these general remarks with comments on particular components, including:
  - Television tubes. Although the quality of UK tubes was considered satisfactory, prices were up to 20 per cent dearer. The Japanese would welcome alternative local sources.
  - Printed circuit boards. UK boards were 20-50 per cent dearer than Far Eastern boards, with the price differential rising to 300 per cent in the case of complex boards. The Japanese respondents believe that Japanese PCB manufacturers may soon move into Britain to reduce prices.
  - Transformers. Although UK transformers were 20-40 per cent dearer than Far Eastern ones, the high shipping costs of these heavy products made the price premium acceptable.
  - Metal parts. Simple pressed components such as small brackets were up to 50 per cent dearer and the quality poor, varying from batch to batch. By contrast, UK precision machined components were of high quality, although they were about 100 per cent too dear because they were made by companies used to defence work.
  - Plastic parts. UK suppliers were considered significantly worse than other EC suppliers, notably from Ireland. Prices were too high and quality poor, defects being blamed on inefficient management.

The report concludes: "There was considerable criticism and very little praise of UK suppliers' performance in general, which suggests that legislative pressure currently is very significant in forcing the levels of local sourcing achieved."

Nevertheless, the report also suggests that, if they can get their act together, UK suppliers could increase their sales to Japanese companies based in Britain very rapidly. The opportunities are much greater for them than for other EC suppliers.

## Audi VW plans parts warehouse

BY JOHN GRIFFITHS

AUDI VOLKSWAGEN (UK) is to spend \$5.7m on building an additional parts warehouse near its Milton Keynes headquarters.

The importer, owned by Mr Tiny Rowland's Lomax group, expects the facility on a nine-acre site at Wymshurst, to be opened in the summer of 1988.

It is claimed the warehouse will make possible further improvements in the speed of distribution and availability of parts supplies.

The unit is intended mainly to make it easier to service Audi VW's car and light commercial vehicle market.

group. Forty building societies will pay standing orders and 25 will pay direct debits.

Most of the large societies have moved into services such as travellers' cheques and foreign currency sales. A further 33 offer out-of-hours cash from automated teller machines, although Halifax is the only large society to operate its own ATM network of more than 800 machines.

Other societies rely on two national, independently operated ATM networks, Link and Matrix. The majority of building societies offer unsecured loans up to a legal ceiling of £10,000, but overdrafts on current accounts tend to be more restrictive than those offered by the banks.

The banking services listed in the Building Societies Gazette in most cases differ from those offered by banks in one important respect: societies usually offer their customers a service provided by another institution.

Most cheque book accounts, for instance, are operated by either the clearing bank or Co-operative Bank. Travellers' cheques are supplied by either American Express or Thomas Cook, and credit cards are issued by other originators such as Barclaycard or Trustcard.

Only a few large building societies operate these services directly. Most do not have the resources to follow Abbey National in building its own clearing facilities and joining the Cheque and Credit Company, the national clearing organisation for

## Alfa sales 'will double to 4,000 units'

BY JOHN GRIFFITHS

ALFA ROMEO car sales in the UK will double this year, to more than 4,000 units, according to Mr Peter Kinnaird, the new managing director of Alfa Romeo (Great Britain).

Society of Motor Manufacturers and Traders statistics show that Alfa sales in the first quarter of the year have exceeded 800 - more than were sold in the first seven months of last year.

If Mr Kinnaird's forecast proves correct, it will be the first time since 1984 that Alfa Romeo sales in the UK have exceeded 4,000 units.

This would still be a long way from Alfa's record year, 1979, when it sold 13,638 cars. That was before a long decline triggered by the 1979 oil crisis, but exacerbated, in Mr Kinnaird's view, by poor product planning, marketing and quality problems. The decline appears to have bottomed out in 1986, at 2,283 units.

Alfa's peak-year sales were concentrated in the cheap hatchback sector, with the Alfa Romeo model. However, in the wake of Alfa Romeo's takeover by Fiat in January of last year its current and future models are being moved steadily upmarket.

Mr Kinnaird, formerly an executive with BMW (GB), said future product strategy provided for the Italian manufacturer to return to its heritage of producing more overtly sporting convertibles, coupes and saloons as well as outright sports cars.

In spite of problems in recent years, Alfa Romeo "has still got a heritage and image many manufacturers would give their eye teeth for," Mr Kinnaird said. Even with the company's return to more sporting and expensive products, "I see no reason why we shouldn't be selling 8,000-9,000 cars a year by 1990."

## Budget insurance windfall

BY ERIC SHORT

INVESTORS with Royal London Mutual Insurance Society, the home service insurance company based in Colchester, Essex, will receive a windfall on maturing with-profits policies, because of a change introduced in the Budget.

The change in the new year in assessing capital gains tax liabilities means life companies will enjoy a release of reserves set up to meet unrealised CGT liabilities prior to 1982, the new base year.

The change has allowed the company to add £10m to reserves to meet future death claims.

The increase in the pay-outs to investors with ordinary branch contracts ranges from 1.4 percentage points for 10-year terms to almost 4.5 percentage points on 25-year policies. This is in addition to the normal bonus increases arising from the assessment of the company's financial position at the end of 1987.

Thus, without this windfall, maturing 10-year contracts would see pay-outs unchanged, while pay-outs on 25 year policies would have increased by about 3 percentage points.

Some life companies recently announcing their financial results appear to be using the release of CGT liability to offset the additional reserve being set aside to cover future potential AIDS death claims.

Royal London has set up a £2m AIDS claim reserve for its Ordinary branch life fund from other reserve funds, but has taken the decision to pass on the windfall to policyholders immediately.

## Building societies 'making deep inroads into banking'

BY DAVID BANCHARD

BUILDING SOCIETIES have made deep inroads into services traditionally carried out by banks, according to a survey in the current issue of the Building Societies Gazette.

The survey shows that 17 building societies offer cheque books to their customer, including five of the 10 largest societies. Halifax, the largest, is not included because its cheque book service is not generally available.

A similar number of building societies also offer cheque guarantee cards, and Abbey National, the second largest building society, recently launched the first £100 cheque card.

Nine societies issue Visa or Access credit cards, and Halifax and Leeds are soon to issue their own cards belonging to the Visa

## Marconi gains satellite contract

BY NICK GARNETT

MARCONI SPACE Systems of Portsmouth, a subsidiary of GEC-Marconi, has won a £250,000 contract from the European Space Agency to lead design studies for the building of a probe that will explore Titan, one of Saturn's moons.

The probe is intended to be part of a satellite that is due to be launched in 1992. It is hoped that the journey into space will last eight years.

## ATM networks - their Organisation, Security and Future

BY JAMES EASTINGER

THE report, ATM Networks - their Organisation, Security and Future, by James Eastinger, shows that about 15 per cent of the cards issued by the one financial institution to publish detailed figures, Halifax Building Society, were lost or stolen.

**CaC Computers and Communications**

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UK NEWS

Rolls-Royce says use of ceramics is set to take off

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT
THE WORLD MARKET for advanced composite materials using ceramics could be worth \$500m a year by the end of this century, rising to about \$2bn a year by 2010, according to Rolls-Royce.

Courtaulds reorganises film and packaging

BY ANTHONY MORETON
COURTAULDS has reorganised its film and packaging interests as part of a move over the next 18 months to use its name on all companies in the group, one of the largest chemicals-to-clothing concerns in the world.

David Blackwell continues the series on investor protection with a report on the AFBD Futures brokers clear their last big obstacle

THE ASSOCIATION of Futures Brokers and Dealers recently cleared the last big hurdle on the road to the A-Day deadline for applications when it agreed capital adequacy rules with the Securities and Investments Board.

Bond dealers' association gains designated stock exchange status

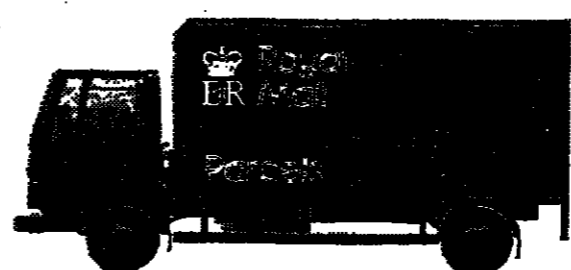
THE ASSOCIATION of International Bond Dealers, which groups firms trading in the Eurobond market, has received confirmation that it will be viewed on a par with overseas stock exchanges as the new regulatory structure for the British securities industry is put in place.

APPOINTMENTS Heron Trading posts

HERON TRADING CORPORATION, UK trading arm of Heron International, has made the following appointments to its board: Mr Michael Marx, a Heron International director (deputy chairman); Mr Keith Lewis-Baker, managing director of Heron Service Stations; Mr Richard Morris, managing director of Heron-Freight; Mr Alan Fell, director of human resources; and Mr Peter Court, deputy director of financial operations.

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ARTS

Architecture/Colin Amery

Blueprints from Turner

"Consider the pleasure of being your own architect," wrote J.M.W. Turner to his friend James Holworthy about one of the three building projects that occupied much of his time. It is clear from Turner's paintings that he did not simply record architecture but placed it in its context of light and landscape.

It is worth looking first of all at the sketches and plans of Turner's own buildings. In 1811 Turner left his house in Hammer-smith for Stan Perry House at Isleworth and it was from here that he supervised the building of his own house on land he had bought at Twickenham. He first called this house Solus Lodge because of his intense need for solitude but later the name was changed to Sandycroft Lodge.



Turner's London Bridge, with the Monument and the Church of St Magnus, King and Martyr

shows an alternative approach to the idea of grandeur observed by Turner in a delicate section of the effect of Venice upon Turner is well known and its lighting effects rub off on some of his English views. Look at the glories of the street view of Merion, Oxford.

The Story of Kufur Shamma

Clare Datzel

The Almeida has hit back swiftly at the charge of its funding body, Greater London Arts, that the theatre fails to cater to the tastes of the city's minority groups by staging a play about the most recent of minority groups, the Palestinians. The Palestinian company, El-Hakawati, is presenting The Story of Kufur Shamma until April 16.



Jackie Lubek and Iman Aoun in a story about a fictitious Palestinian village destroyed in 1948

The Dark at the Top of the Stairs/Derby

B A Young

William Inge conceded that this play, given a welcome production at the Derby Playhouse, was really a comedy. It is unlikely that his early life in rural Oklahoma arranged itself so dramatically.

entirely under their mother's influence, and she spoils them disastrously. Teenage Reenie (Terena McElroy), dividing her life between the piano and the library, has become a swamp of self-pity. Her brother Sonny, about 18 (Stephen Clements on the night I was there, and very good indeed) is selfish and bad-tempered, and still climbs into his mother's bed if his father is away.

Mahler/Festival Hall

Andrew Clements

The BBC Symphony Orchestra chose to end its current South Bank season on Sunday. At the Festival Hall, John Pritchard conducted Mahler's Second Symphony, the Resurrection. It is difficult to avoid making a special event out of a performance of this work, but despite the added resonance that Easter Day gave to it, this one often steered close to the mundane.

London Philharmonic/Festival Hall

Richard Fairman

Contrary to the impression given by most concert programmes, there is life in the Russian symphony beyond Chaikovsky. The challenge of pouring traditional Russian folk themes into a Western classical mould and then forging from them a nationalist symphony was one taken up by a number of other leading composers of the time, including Glazunov, who was arguably the most determined classicist of them all.

than Chaikovsky's Fourth or Fifth yet again. And for that we have to thank Järvi, who has been a tireless champion of the composer's music with a complete recorded cycle of the symphonies to his credit. The latest orchestral sound that one associates with his days at the SNO was largely reconstructed here (LPO brass forward and raucous) and the performance of the symphony generated no less excitement than Rimsky-Korsakov's Capriccio Espagnol, a more obvious showpiece, had earlier.

Pavarotti & Freni in San Francisco Bohème

Luciano Pavarotti and Mirella Freni will sing seven performances of La Bohème during the San Francisco Opera's 1988 season (November, December 1988).

phlegmatic and uninvolved, and never remotely the harbinger of any kind of apocalyptic experience. Many of the transitions in the first movement were deftly managed; every element was fitted into place with great skill. But the scherzo was characterised by its instrumental efficiency rather than any sense of spectral parody, and Linda Finnie's carefully expressive account of the "Urlicek" setting seemed in this context merely to offer a commentary upon, rather than a direct musical experience of, its literary context.

Norwich Cathedral du Pre concert

There will be a concert on April 10 in Norwich Cathedral to commemorate the cellist Jacqueline du Pre, who died last year of multiple sclerosis.

Margaret Price recital

The Welsh soprano Margaret Price will give a recital at Covent Garden on April 5 consisting of songs by Haydn and Beethoven, followed by Schumann's song cycle Frauenliebe und Leben. She will be accompanied at the piano by Graham Johnson.

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What put the Sir in Sir Walter Scott? It has been commonly assumed that Sir Walter Scott was given his knighthood for services to literature. However, there is a school of thought which is puzzled by his constant publicising and praising of The Glenlivet single malt whisky. It is mentioned frequently in his writings. This whisky was also the Monarch of that time's favourite tipple. It was said "he would drink nothing else". Is there a connection between these two facts and his knighthood? I believe we should be told. The Glenlivet 12 years old single malt whisky.

Arts Guide April 1-7. OPERA AND BALLET LONDON: Royal Opera (Covent Garden), Peter Cookson, James Decker, Dennis Baxendale, the eagerly awaited new Salome, conducted by Christoph von Dohnanyi, with Maria Fering in the title role and Robert Hale as John the Baptist. Final performance of Un Ballo in Maschera conducted by Richard Armstrong with Anna Tunova-Sidorova, Peter Dvornik, and Piero Cappuccelli. English National Opera (Coliseum): Nicholas Hytner's new production of The Magic Flute is conducted by Ivan Fischer, and has Thomas Hambley, Helen Field, John Rawlsley, and Gwynne Howell in the principal roles. Also in repertoire: Ian Judge's production of Coriolanus in a production by the Elm-Street Theatre. Royal Ballet (Royal Opera House, Covent Garden): Triple bill of recent stagings. PARIS: 2 Mirvove Dounn (Salle Pevart, Opera Comique), James Decker, Henry Cravky's obsessive memories from the prisoners' pathetic universe in Siberia. It is conducted by Sir Charles Mackerras/John Burdick in a production by the Elm-Street Theatre. Voller Schindler. (47 42 83 712) Antonio (TNP-Chatelet). After a Tchekow Novella, in Vladimir Vassiliev choreography danced by Vladimir Vassiliev, Ekaterina Markovna and dancers from Moscow's Bolshoi. (42 33 44 44).

Pop over Easter

Antony Thornecroft

Anyone hooked on country music had no choice this weekend. They could labour up to Wembley for the International Country Music Festival, dressed like a Basildon cowboy, with the wife a depressed and moulting squaw, to sheepishly act out their Western fantasies alongside range riders from Ramon and the Bracknell tribe while Nashville's Texas Billy Bragg, all the way from Basildon; and Ofra Haza from Israel, with good old Yemenite Jewish music.

FINANCIAL TIMES Europe's Business Newspaper

The Glenlivet 12 years old single malt whisky.

Arts Guide April 1-7. TOKYO: Shanghai Ballet (Kan'i Hoken Hall, Gotanda). The Legend of The Maiden (Wed), Phoenixes Shuang on Qi Mountain (Thu). First foreign tour by a company which is said to have some fine young dancers: a rare opportunity to confirm the revival of ballet in China. (281 8161) MUSIC LONDON: City of London Sinfonia (Barbican Hall). Directed by Andrew Wadsworth, violin with Jack Bryner, clarinet, Bach, Mozart and Wivaldi. (Tue), (628 9893). London Symphony Orchestra (Barbican Hall). Conducted by Michael Tilson Thomas with Jorge Bolet, piano, Richard Strauss, Liszt and Ravel. (Thu). TOKYO: Warsaw National Philharmonic Orchestra (Tokyo Bunka Kaikan). Conductor Kazimierz Kord, with Piotr Paleczny (piano), Muscovites, Enchanted, Brahms. (Mon) (674 5169) Alfred Fritz (clarinet) with Maria Fritz (piano) (Tokyo Bunka Kaikan, Gotanda Hall). Schubert etc. (Tue) (470 2267). Yehou Bronfman (piano), Japan Philharmonic Orchestra, conducted by Yehou Bronfman. (Wed), (284 5011). Wiener Volksoper Orchestra, conducted by Rudolf Bittl, with Melanie Holliday, Mirjana Ivezic, Richard Kaczynski. An evening of Venetian operetta. Kan'i Hoken Hall, Gotanda (Thurs) (407 8265).

Not enough room to do justice to everything But the Girl, who played the Albert Hall last week. This queen of the roots, rural Texas and Ben Watt are living proof that an unfashionable looking pairing from Hull can become the voice from the global basement flat. Seem them on stage, even when their songs are filled out by such a sympathetic saxophone accompanist as Pete King, does not really add to the poetic melancholy of the album, but this is class! stuff - poignant lyrics on the tragedy of being young in the 1980s, a voice from Tracy which rivals that of the long silent Sade, and a homely, underplayed brilliance which is an effective counter to the crassness of Radio One pop. Too much room, perhaps, for TPau, musically the worst band ever to pack the Hammersmith Odeon. Why singer Carole Decker associates with such a collection of tacky retrofits in her backing band is a minor mystery. She has obviously graduated with honours from the Betty Midler charm school. Dressed like an LA tart, she inches "This girl ain't for sale" with a verbal assault on the ladies in the audience who serve themselves up as the sweet to men who buy them dinner, with all the subtlety of Derek Jagger. She has everything necessary to be just as popular, plus a prettier midriff.

# FINANCIAL TIMES

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Tuesday April 5 1988

## Lack of vision on benefits

THE INSTALLATION of tough floor-to-ceiling barriers to protect staff in British benefit offices as a storm of protest from groups representing the disadvantaged continues, by any standards, a disappointing reception for reforms which the Thatcher Government once claimed were as radical and exciting as any carried out in the mid-1980s. Indeed, far from bolstering the Government's position in a sensitive area, the changes are likely to prove a continuing embarrassment for Mr John Moore, the Social Security Secretary.

Many of the reforms reflect a broad consensus that the Government has been insufficiently generous in setting the levels of new benefits. Some independent estimates suggest that up to 60 per cent of benefit recipients could live in real terms as a result of the changes. Such figures are hotly contested by ministers, who emphasise the importance of transitional relief. Whatever the truth behind the conflicting calculations, the Government cannot claim to have "lubricated" the reforms generally, nor can it deny imposing a relative squeeze on the poor.

**Questionable distinctions**

The stinginess of benefit levels obscures some modest structural improvements. The old benefits system was extraordinarily complex with many different scales and a web of special payments for special needs. Different types of benefit were subject to different criteria, with peculiar results. The new income support is simpler and related to net rather than gross income. The upshot is that the interaction of the tax and benefit systems can no longer produce the absurdity of effective marginal tax rates in excess of 100 per cent - people will not be made worse off by working harder, except to the extent that they incur additional national insurance liabilities.

The price of the rationalisation, however, is high. The bes-

ing of benefit on net incomes means that many poor families no longer benefit from increases in the income tax threshold. The poverty trap is far from eliminated; indeed the number of families facing marginal tax rates of 70-90 per cent as benefits are withdrawn is estimated to have doubled to about 500,000. At the same time, the new rules introduce some very questionable distinctions. Income support is aggregated: a 24-year-old will get significantly less assistance than a 26-year-old regardless of their objective needs. Yet age per se is not a bar on poverty. The introduction of premiums for certain client groups re-introduces the old Victorian distinction between the "deserving and the undeserving" poor.

**Artificial line**

The central focus of hostility, however, is the new "social fund". Grants for urgently needed household capital goods such as beds and cookers are to be replaced in many instances by loans, loans moreover that are at the discretion of civil servants. The fund itself will be cash-limited and inadequate to meet expected needs, at least by just yardsticks of need. The poor will thus have to compete for the goodwill of officials and pay back their debts out of reduced future benefits or, more likely, by falling into the clutches of local loan sharks. Imposing fresh debts on people already below the poverty line is totally unnecessary.

Historians are likely to regard the "Fowler" social security reforms as little more than a penny-pinching stopgap. They do not address the real problems, not least the narrowness of their scope. The hope must be that a future government will work on a larger canvas and not try to draw an artificial line between benefit reform and tax reform. There can be no justification for cutting back housing benefit while leaving mortgage interest relief and other middle-class perks untouched. Welfare for the poor should be shrank, if at all, only after welfare for the rich has been eliminated. We are still awaiting a "new Beveridge".

## Rules for the Gatt system

WHEN CRITICISED about the US budget deficit, the Administration stresses its support for a balanced budget amendment to the US Constitution. The promise of the enactment of virtue at some distant date is offered as a substitute for virtue today. Similarly, the agreement of the European Community, the US and Japan on strengthening the General Agreement on Tariffs and Trade could prove an alternative to willingness to abide by Gatt principles and rules right now.

If the aim is to strengthen the trading system, the rules themselves have to be written in clearer and more economically sensible form; second, the Gatt secretariat has to play a more effective role than at present in policing the rules; finally, the domestic policies of the member countries have to be altered to make the rules and the principles underlying them more politically effective.

**Breaches of law**

At present, a number of rules can be obeyed formally, even though the underlying purposes of the system are thereby violated. For example, the article dealing with the use of developing countries of quantitative import restrictions for balance of payments purposes has given carte blanche to costly protectionism. Similarly, anti-dumping duties are in danger of becoming a more costly distortion of trade than dumping.

Looking at the Gatt as an institution, the most important reform would be to allow the Gatt Secretariat to take a lead in publicising breaches of Gatt law. At present there is, unfortunately, too often a conspiracy among the member countries to keep violations secret.

The surveillance function of the Gatt Secretariat could include country reviews of trade

policy, but these should surely focus on legal compliance, the Gatt's remit. This does not mean that the economic appropriateness of alternative trade policies should not be assessed. But other institutions are better suited to this task. For example, the OECD is the natural institution for evaluation of the economic aspects of the policies of developed countries. Similarly, the World Bank or the IMF are better situated to evaluate the economic appropriateness of developing country trade policies.

**Simplest change**

There is also a limit to the degree of co-operation among the international organisations that deal with the non-discrimination norm that is central to the Gatt system.

It is far more important to strengthen the effectiveness of the norms of the Gatt system in the trade policies of the member countries. At the moment, exceptions to the general principle of liberal, non-discriminatory trade, such as countervailing duties or safeguard protection, have force in domestic law, not the more fundamental norms themselves. If the major developed countries were really interested in strengthening the Gatt system, the simplest change of all would be to make the Gatt itself enforceable in domestic courts. Equally, where exceptions to the general principle of liberal trade arise, greater transparency of the domestic costs and benefits of such interventions is required even when those interventions are permitted under the Gatt.

At present, there is a danger of adding new floors to a building whose foundations are collapsing. But too much should not be expected of changes in the Gatt as an organisation. What is needed is clarification and strengthening of the rules, improved surveillance, and the strengthening of domestic enforcement of the rules. Above all, strengthening of the Gatt should not be viewed as an alternative to changes in behaviour by member countries. It will be their principal consequence.

Clive Wolman describes the change in academic thinking brought about by the stock market crash

# Efficient market theory stumbles

THE STOCK MARKET crash last October has reversed a 30-year intellectual trend which provided the ideological underpinning for many of the 1980s' government and corporate initiatives around the world - from privatisation and the liberalisation of financial markets to the acceptance of takeover battles.

The sudden fall of between 20 and 40 per cent in world stock markets and the lack of any economic developments to justify them, either at the time or over the subsequent six months, have become impossible to reconcile with the theory that share prices consistently reflect the underlying values of companies.

Mr Stewart Myers, Economics Professor at the Massachusetts Institute of Technology and London Business School, has, through his publications, played a key role in spreading understanding of what is called the "efficient market theory" beyond the business schools, where it came into fashion in the late 1960s, to practitioners on Wall Street and, during the last five years, in the City of London. But at a conference last week on the stock market crash at the London School of Economics, Mr Myers recanted. "The efficient market theory is dead, at least in its simple form," he said.

In all its forms, the theory insists on the rationality and stability of stock markets and denies that they engage in bouts of wild speculation. Share prices, it claims, represent the best estimates of companies' future earnings in the light of all publicly available information.

In the hurry-burry of City dealing rooms, where anomalous price movements are exploited daily, the theory has always been slender. The great merit of remote academic theorising. Likewise in company boardrooms it is rare to find a director who does not believe that his company's share price is both too low and prone to inexplicable gyrations.

However, the influence of the theory on both public policy and corporate management has become pervasive, not only in the UK and US, but also in western Europe and Japan. A number of consequences have followed:

- Institutional and fiscal obstacles - like stamp duty - which discourage share trading have gradually been dismantled in the belief that they prevent share prices from adjusting swiftly to their "true" value in the light of new developments and information.
- Small investors have been encouraged to buy stock market listed shares as the best way of accumulating "divs" (unfairly overvalued shares) has diminished. According to the theory, any additional information that the professionals have and small investors lack is already reflected in the share price.
- The growth of passively managed investment funds in the US and UK has been based on the belief, and growing evidence, that professional active fund managers are incapable of making money by spotting under-valued or over-valued shares. According to the theory, such shares rarely exist.
- The takeover and merger activity has been encouraged as a way of promoting managerial effectiveness. Companies

only become vulnerable to takeovers when their share prices are depressed and that, according to the theory, is because their prospects under existing management are poor. Bids are made by companies with more highly rated share prices which means that their managers are considered of higher quality.

The rationale for conglomerates has been steadily weakened. Stock markets, by impounding all available information about a company in its share price, can show a better understanding of its prospects than a remote manager in head office. With the back-up of the takeover threat, stock markets can thus impose a more effective discipline on a company than the conglomerate headquarters.

• The belief has grown that the stock market can be a similarly effective discipline on the management of companies that have been in public ownership. Hence the rationale for privatisation.

Since 1983, and particularly during the decade before the October crash, when the volatility of most stock markets was fairly low, the evidence in support of the theory was impressive. Mr Michael Jensen, Finance Professor at Rochester University in the US and

## 'The stock market is a game of musical chairs or snap where the winner moves fractionally ahead of everyone else'

Harvard Business School, claims the theory is the most thoroughly tested in the social sciences and several hundred academic studies have been written in support of it. But, as the LSE conference demonstrated, the October crash has given new life to its critics.

The popular view that stock market investors are mad - that there is a bursting speculative bubble than about making rational long-term forecasts dates back at least as far as the South Sea Bubble in the 18th century but found its most articulate exponent in John Maynard Keynes.

"The popular view that stock market investors are mad... that there is a bursting speculative bubble than about making rational long-term forecasts dates back at least as far as the South Sea Bubble in the 18th century but found its most articulate exponent in John Maynard Keynes."

Mr Lawrence Summers, Economics Professor at Harvard University, predicted that the LSE conference on the interplay of two types of investor. One is the long-term "negative feedback" investor, embraced by the efficient market theorists, who buys shares when they become cheaper and sells them when they become more expensive. But, in Mr Summers' view, the stock market also contains many "positive feedback" investors of the sort described by Keynes. They are short-term active traders or less sophisticated small investors who buy when the share price rises and rush to sell when they fall.

When small share price movements occur, he said, the negative feedback investors predominate and help to preserve stability. But when a larger fall, or rise, occurs in a period of increasing jitter the positive feedback players can overwhelm the rest. In fact, many investors who consider themselves negative feedback players become the opposite as the more primitive emotions of greed and fear overcome rationality. In such situations, prices can continue falling almost without limit or at least until they become so absurdly low that the negative feedback starts to work again. Stock exchange institutional weaknesses, such as the influence in the US of portfolio insurers, who represent the most extreme form of positive feedback players, can aggravate a collapse of accuracy. The pressure of institutional fund managers particularly in the UK and US, whose main concern is to ensure that their own short-term investment performance is not perceptibly worse than that of their competitors, makes them all too likely to become positive feedback players in times of chaos.

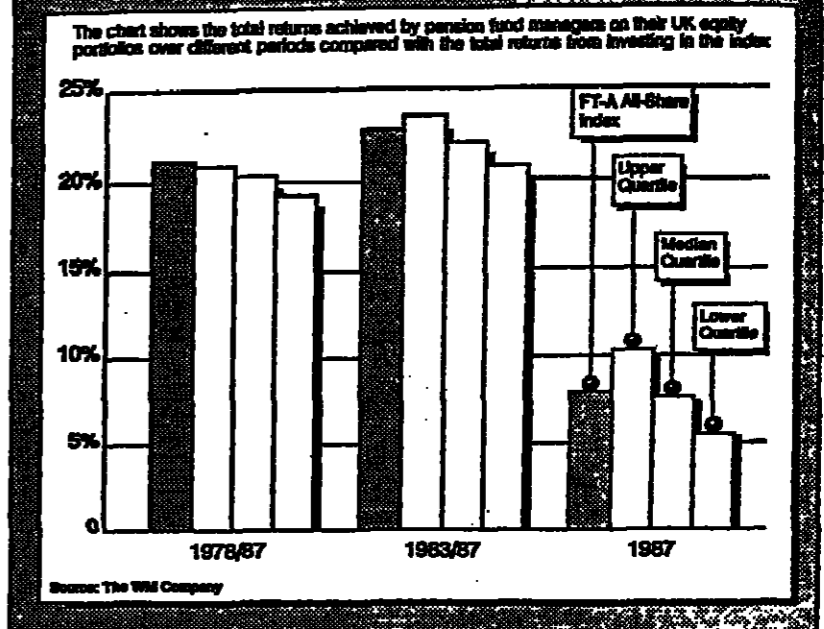
The other speakers at the conference, in particular Mr Myers and Professor Mervyn King of the LSE, helped to flesh out this interpretation of the crash. Stock market investors and financial theory, Mr Myers said, were good at making accurate predictions. If yesterday's share prices can be assumed to be correct, today's can be correctly assessed in response to fresh economic developments. If British Petroleum's share price is correct, then Shell's can be compared and fixed with a high degree of accuracy.

But the crash demonstrated, he said, the futility of the tools for forecasting long-term profitability on a macro-economic level and for analysing the absolute values of financial assets in relation to those forecasts. The principle behind the simple form of the efficient market theory - that there is a single "true" value for the level of share prices - has to be replaced with a view that there is a very wide range of plausible values.

Faced with chronic uncertainty as to what the true level of share prices should be, investors are forced to look to their lead from each other and increasingly from investors in other world stock markets. At a time of high anxiety and share price volatility, as during the weekend before October 19, the risks of contagion from one market to another are increased.

• However, the events of 1987 cannot be adequately explained by the growth and burst of a speculative bubble in

The chart shows the total returns achieved by pension fund managers on their UK equity portfolios over different periods compared with the total returns from investing in the Index.



- Studies which demonstrate that share prices move in a random walk. This denies the possibility of speculative bubbles in which prices are pushed up - or down - by speculative pressure just because they have already been rising - or falling - imply.
- Studies which show that few, if any, professional investors are able to achieve higher returns over the longer term than the naive investor would achieve on average by investing in an index-fund or random selection of shares (see chart).
- Studies which refute particular allegations of stock market inefficiency. For example, a 1985 study of 324 firms by the US Securities and Exchange Commission disproved claims that investment spending by companies on R & D made their share prices fall by depressing short-term profits. On average, it found, they rose.
- Studies which show that stock markets focus on anticipated cash flows into and out of a company and see through 'window-dressing' and misleading changes in accounting conventions.

which positive feedback players predominated throughout. After all, most European stock markets remained depressed throughout the first nine months of the year but still fell dramatically in the crash, whilst the Japanese market rose to a peak in October, fell back and has almost recovered to the same level within a few months.

More fundamentally, it is unlikely that the October crash is sufficient to undermine most of the public and corporate managerial policies of recent years which have been based on some sort of faith in stock market rationality. Even the proposal made in the Brady Commission report in the US that "circuit breakers" should be introduced to restrain dramatic price movements and, implicitly, to allow the negative feedback players to reassert themselves has been strongly challenged. At most, in October, circuit breakers might have meant that share prices fell more slowly but to their same ultimate level.

Mr David Walker, the Bank of England director who chaired the LSE conference, suggested that the poor quality of pension fund trustees, who explained many of the undesirable pressures on investment managers and aggravated the crash. But even those markets where pension funds have little or no influence fell just as dramatically.

Moreover the crash has not negated many of the lessons of stock market efficiency; for example, that few, if any, investors can consistently achieve higher returns than the stock market

average. The credibility of those who claim to have foreseen the crash is greatly diminished by the error of their forecasts of doom in earlier years and by the emphasis they put on Japan as the most vulnerable market.

The underlying point is that stock markets are highly effective devices in a technical sense for ensuring that share prices swiftly and effectively impound a wide range of opinions and information about companies - and there are few if any individuals of sufficient insight and perception to out-guess consistently the sum of human forecasting ability that share prices reflect.

Prof Jensen, another influential efficient market theorist, fears that the crash will be seen by history to have encouraged a fundamental shift in government policies away from the reliance on free capital markets that has characterised the 1980s and towards renewed state intervention. (Indeed, Prof Jensen argues that the first signs of such a shift of policy in the US helped precipitate the crash.) Most observers, however, take a more relaxed view according to Mr David Darnett, of Barclays Asset Management, one of the first City practitioners to be converted to the efficient market theory. "I have much more difficulty in finding a rationale for such a ghastly crash than for what happened in 1974-76. But the real point is that the stock market does not have to be very efficient to be a better allocator of capital than some committee in Whitehall."

## The prisons are bursting

FOR the second time within a year Douglas Hurd, the British Home Secretary, was obliged to make a statement last week to the House of Commons to announce that he was increasing the country's prison accommodation yet again, this time by making available a couple of army camps. On the basis of his own figures, there is every likelihood that he will be back at the despatch box this summer to announce a further expansion.

Why? The question was best put by Bruce Grocott, the Labour MP for The Wrekin, who asked: "Why is it that we send more of our citizens to prison per head of population than any other country in western Europe, yet neither our streets nor our citizens are safer as a result? Will he admit that prisons are overcrowded not as a result of people being in prison because they have committed violent crime, but because they are cluttered with petty offenders, who are on short sentences in local prisons?"

The Home Secretary did not exactly run away from the question. He said: "The trouble is that one man's petty offender is another man's dangerous house-breaker. That is decided not by the hon. Member nor by me but by the courts, case by case."

And indeed the present Home Secretary is in many ways the soul of discretion. He can see the problems, even discern the solutions, but refrains directly from telling the courts to stop piling up trouble for the future.

This is an oddity in the Thatcher era. Normally when a public body or another is judged ostentatious or the teachers or the local authorities, for example - the Government turns on them full blast. Hence the charges of increasing centralisation in contemporary Britain. Yet the courts are allowed to go on sending people to prison cells which barely exist, which are overcrowded if they do, and often for no obvious other than temporarily to get them out of the way.

## OBSERVER



'Is it me, or do I smell mischief?'

answer back, there cannot be much to be said for British justice.

One recurrent point showed naive all round. It was suggested that because Hollis had worked for a multinational company, and one with rather a global reach, he was unlikely to have been an agent at the time for either side, or both. It seems to me that that is precisely where an agent might have been working, especially in those days.

It was also striking that Paul Greengrass, the man who ghosted Peter Wright's book Spycatcher and without whom the book might never have been written, appeared as a witness who said he believed that Hollis was innocent. Since the main motivation of that largely unreadable tome seemed to be that Hollis was guilty, it makes one wonder what Greengrass was up to.

The verdict, of course, was that the case against Hollis was not proven, as it was bound to be.

Hollis goes free

Still on the courts in a way, that is not to be said for The Trial of Sir Roger Hollis, the three hour documentary on Independent Television on Sunday about the head of British intelligence who may have worked for the Russians. Yet if counsel for the defence and the prosecution normally behave in such a supercilious manner, and those being questioned are too supine to

The reason why I think that he was innocent is that it would have been in the interests of successive British governments, who have investigated the case time and again, to have come clean if he had not been. That applies particularly to the Thatcher Administration which had nothing to do with the Hollis period and, in absolving him, could have placed the blame squarely on its predecessors.

**Philly's next move**

Nevertheless, something strange must be afoot in the old espionage world. For why is Kim Philby, the Soviet spy par excellence, still in the news in the Sunday Times? So far he has revealed little that is new, but the series continues and one cannot imagine that the KGB, which must have put him up to it, will allow it to peter out without some major revelation.

**End of the march**

If the weathermen got it wrong again. It was not such a bad Easter after all. Yet the forecasts of rain cannot have been the only reason why so few people turned up for the 30th annual march to Aldermaston. Perhaps it is simply that young people no longer go on pilgrimages.

It is certainly not true that there is no longer a cause, nor that the old - or rather the young - Aldermaston was without its successes. It did stir Harold Macmillan into negotiating the partial test ban treaty, one of the most fundamental arms control agreements so far. It was a focus for debate - within families as well as on the march. Nothing like it seems to exist any more, and that is a loss for everyone. Better Aldermaston than the Gatesheaders' Ball, would be at least one parental view.

**Please return**

Someone asked for a rare book at the Vatican Library. After about two hours a note came back: "Missing since 1583"

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# Close only counts in horseshoes

ADMITTEDLY one seems to have been going on for ever and the other for not very long, officially. One has been consumed with sex, religion and race, plus a little plagiarism, while the other has only recently passed the poster phase. But it is possible to start drawing some intriguing comparisons between the presidential campaigns in the US and France.

Both so far have been dominated by septuagenarians who have hardly said a word. President Ronald Reagan cannot constitutionally run again, but could have made his preferences known by now. However, whereas Dwight Eisenhower's coolness towards Richard Nixon in 1960 did not help his Vice President, Mr Reagan's silence has worked to George Bush's advantage. This probably suits the President - being a good Republican, he presumably wants one of his own to succeed him.

Certainly, the Republican Party alternatives to Mr Bush were never that strong. Messrs Robertson, Kemp, Haig and Dole were limited, albeit vocal, contenders as - if the truth be told - did Senator Bob Dole. His support seemed more potent because it was based in Washington, a town gorgeously described by Fred Barnes in the New Republic as "increasingly insular, arrogant, elitist, pompous, mad, addicted to luxury and mindless political combat and, worst of all, downright hostile to the non-Washington masses." Which is to say that Mr Dole in 1968, as in 1976 when he

was President Gerald Ford's running mate, was never likely to travel well outside the Beltway.

President François Mitterrand's verbal reticence is demonstrated by the fact that his most memorable utterance in the campaign has been "oui", just a minor variant on the "non" which Charles de Gaulle established as the norm for French presidential pronouncements. Having eliminated the possibility of a Socialist challenge, Mr Mitterrand's purpose, of course, was to permit his country to reflect on the merits or, as he perceived it, drawbacks of his rivals to the right, Jacques Chirac and Raymond Barre. As a tactic, it has worked beautifully, so far.

Thus, a critical element of the French election is a battle for the soul of the right, a conflict which, Mr Mitterrand assumes, can only strengthen his cause. In the US, however, the Bush bandwagon - with Mr Reagan as its unseen driver - began to roll, it had appeared that a similar battle would be waged as much for the hearts and minds of conservative Republicans as for the consciences of the more elastic Democrats. If Mr Mitterrand's tactical logic were transported across the Atlantic, it ought to be good news for the Republicans that the ideological battleground is now principally on the left.

The question, though, is how much of a handicap is incumbency? Incumbency can help paper over cracks, but this cannot be guaranteed. The Ford-Reagan primary conflict did not help the Republicans in 1976 and the Democrats were harmed by disaffection between the Jimmy Carter and Edward Kennedy camps four years later. But, in both cases, other factors were more important in determining the outcome. Mr Mitterrand profited from divisions in the incumbent right in 1981.

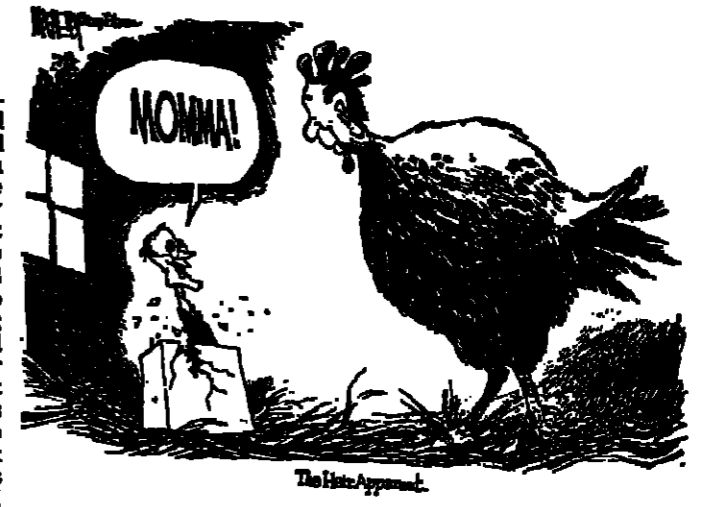
When an election is not in doubt, the opposition party can indulge in the dubious luxury of tearing at its own vitals. The British Labour Party is familiar with this phenomenon in the 1980s, as were American Democrats in 1972 and 1984 and Republicans in 1964.

It ought to be the case that the shorter the campaign, the harder it is for the divided party (or, in France's case, parties) to recover. This is something that should concern Mr Bush more than Mr Mitterrand. Not only does he not enjoy the advantage of personal incumbency, but also, if he continues to say nothing for the remaining seven months of the campaign, the country may go to sleep on him while the Democrats wake up to an opportunity. But in both countries genuine

come-from-behind victories, on the scale of Harry S. Truman's triumph over Thomas Dewey in 1948, are uncommon. Hubert Humphrey nearly recovered from the ashes of the Chicago convention in 1968, but in the end fell short; Mr Ford almost erased the 20 point plus lead Mr Carter enjoyed in the polls in 1976; but, as Will Rogers or some philosopher

than the American Democrats. Yet for both to be underdogs is an odd state of affairs, since both can claim to constitute majorities in their respective countries. The combined Chirac-Barre score in French opinion polls exceeds Mr Mitterrand's. Combining resources, however, is much more than an arithmetic exercise, particularly when it involves Mr

young and some ethnic and religious minorities, traditional Democratic strongholds, seemed significant. But good Republican results have been thin on the ground since then. A CBS-New York Times survey found that about 20 per cent of those who voted Republican in the 1984 presidential election expected to vote for a Democrat this year; and the Democrats had suffered no new defections from their ranks four years ago. The net result was to put both parties level in national strength and to leave Mr Bush neck and neck with Governor Michael Dukakis of Massachusetts, the nominal Democratic leader.



## Jurek Martin compares presidential races in the US and France

Chirac, whose unwillingness to campaign for President Valéry Giscard d'Estaing seven years ago still leaves bitter memories.

In the US, much was made of the extent to which, first in 1980 and especially in 1984, President Reagan had redrawn the political map. His success in capturing the

But reconciliation in the French right and the Democratic Party is complicated by the presence on the respective fringes of Jean-Marie Le Pen and the Rev Jesse Jackson, two men with little in common beyond an ability to get out the vote through "the politics of resentment." Both scare mainstream opinion in both countries.

Mr Jackson's appeal is much more complex and challenging for he is saying things that others were and, to a degree still are, pretty common and valued currency in American Democratic circles, whereas Mr Le Pen's National Front policies, whatever

visceral emotions they stir up, cannot lay claim to comparable legitimacy.

Moreover, if not yet ready for a black (or hispanic) president, Americans are coming to accept racial political pluralism rather than tokenism. The trouble is that to many, including influential leaders in the minority communities, Mr Jackson is, by his very outrageousness, not the voice they want to hear. Mr Coleman Young, the black mayor of Detroit, endorsed Mr Dukakis in the Michigan caucuses, yet Mr Jackson swept the board. His party needs him far more than

the French right needs Mr Le Pen, both for reasons of conscience and for the voters he can deliver. But the price could be high.

There is a final curious point of transatlantic comparison. Mr Mitterrand once espoused the cause of constitutional reform to shorten the presidential term - a subject he has now dropped. Out of the blue recently, Mr Reagan said he thought it ridiculous that American presidents should be limited to just two terms. An obvious solution would be to swap constitutions, or presidents, party needs him far more than

# Bargaining with union independence

AS BRITAIN'S Trades Union Congress assesses its policy on strike-free deals, the question arises in what way do they differ from conventional collective agreements?

One of the hallmarks of the UK's industrial relations system is that collective agreements normally lack contractual status, but their terms may be given legal effect by inclusion in the contract of employment. A notable exception is the provision preventing the individual employer from participating in industrial action, may be incorporated provided it satisfies conditions set out in section 18(4) of the Trade Union and Labour Relations Act.

However, there is a common law principle of contract law in industrial action normally involves an employee in a fundamental breach of contract. This helps explain why explicit no-strike clauses are rare in contracts of employment, even where there is a strike-free collective agreement. Such clauses were offered by the unions in the 1970s, but were rejected by the courts.

For most unions, principle is at stake over the contractual status of collective agreements. It is presumed by section 18(4) of the Trade Union and Labour Relations Act that negotiators do not intend to create legal rela-

tions. This can be rebutted only by a clear statement that the parties intend the deal, or parts of it, to be a legally enforceable contract. In practice, collective agreements hardly ever contain such clauses and it has been assumed that strike-free deals are no exception.

But this view must be modified following the General Motors strike-free agreement for its van plant at Bedford, a deal which was a precondition for its joint venture with the Japanese company Isuzu. The agreement, which involves several unions, states that the arbitrator's award will be legally enforceable on both company and unions. This obligation on the company might assist a union at a time when market power favours employers, but the corresponding obligation on it has an important implication for the lawfulness of strike action.

Suppose a union indicates its refusal to accept an award by organising or condoning a strike. The employer would then be able to enforce the union's duty to accept the award through legal action for breach of contract. It must be emphasised, however, that under the General Motors deal such legal action would

have to be preceded by a reference to arbitration and this in turn depends on the agreement of the parties.

The debate about strike-free agreements is bedevilled by confusing terminology, especially in respect of arbitration provisions, which are variously described as binding, compulsory, mandatory and unilateral. When combined with extensive no-

strike clauses, they are said to destroy the right to strike.

A reference to arbitration may arise in at least three ways. First, the employer and the union may jointly choose to exercise the option of making a request (optional joint reference); second, the agreement may specify that they must jointly make a request for arbitration; third, one party may have the power to make a request (unilateral reference). Both mandatory joint and unilateral reference are fundamentally consensual since they are authorised by procedural arrangements under which the parties agree in advance to describe the arbitration award as binding, but then so do many conven-

tional agreements. Acas adopts this approach as arbitration awards are morally, though not legally, binding. This distinction was recently confirmed by the High Court when rejecting the National Union of Mine-workers' assertion that the awards of the coal industry's National Reference Tribunal were contractually binding (*NUCW v NUM* (1987)). The

General Motors deal is exceptional in stating - in language that satisfies the *NUCW v NUM* test - that the award is to be legally binding at the collective level, with the implications discussed above for the lawfulness of strikes.

Pendulum arbitration, requiring the arbitrator to choose between the union's last claim or the employer's last offer, is one of the hallmarks of strike-free deals. Some commentators have argued that this mode of arbitration is suitable for settling conflicts of interests over new terms and conditions of employment. Others have focused attention on conflicts of rights over the application and interpretation of existing agreements. In

Despite its North American antecedents, pendulum arbitration, says Acas, is similar to "straight choice" arbitration in the UK. In other words, something akin to pendulum arbitration is commonly found outside strike-free agreements. But its pros and cons have been largely debated in the context of these deals. It is said to provide an alternative to strikes which overcomes the defects of conventional arbitration, by limiting the arbitrator's discretion, offering an incentive for settlement without resort to arbitration and encouraging closer and more reasonable positions.

But pendulum arbitration may founder over the difficulty of defining the parties' final positions. It may also be unsuitable for complex disputes involving packages of proposals. Where the parties' final positions are unsatisfactory and yet the arbitrator has to give total victory to one side, it may be unfair and harmful to industrial relations.

Pendulum arbitration has not prevented isolated incidents of industrial action, but that proves very little. In two of the cases culminating in a pendulum award (at *Bowman Webber* the award was for the union, and at *Ivesco Ford* for the company), both the arbitrators would have preferred a solution other than the parties' final positions.

My experience - based on the arbitration at *Ivesco Ford* - is that the requirement to find entirely in favour of one side's final position may make the hearing more adversarial and less of an inquiry into what the best solution would be. It may seem odd to describe as adversarial a technique designed to substitute rational argument for industrial muscle, but it underlines the point that unions which enter these arrangements do not necessarily compromise their independence.

The author is Professor of Law at Southampton University.

## Ethnic mix may defy solution

From Mr P.A. Reese.

Sir, South Africa might well welcome the achievement of Edward Mortimer (March 29), if it could be internationally guaranteed and had the effect of keeping unwanted intruders from crossing its borders.

The other type of interference of the holler-than-thou kind indulged in by the liberal conscience is more difficult to deal with, but it becomes increasingly apparent that others will pay the price of it in blood.

The complex ethnic situation in South Africa defies any simplistic political solution. That is tragedy. The position of Mr Mortimer and those who think like him would be morally tenable if they would indicate clearly the end they have in mind by using their means. On what national system would it be modelled? The United Kingdom? India? The USSR? The US? Uganda? All are flawed, but let Mr Mortimer be positive and constructive and come up with an answer which will satisfy the ethnic groups concerned, and assuage their fears of worse than extinction.

What is remarkable is that since the beginning of a brutal continent, there are so many people in South Africa - of all races - of high intelligence and civilised thought and conduct. This must offer hope, but how to build on it? Perhaps the churches should offer prayers for the salvation of the continent by calming their fears, and the rest of us should help to fund the South African infrastructure, with particular emphasis on education and housing for the less well-off.

As in 1892, political representation will follow, and probably much quicker than one might think.

P.A. Reese, Brightons, North Green, Kelsale, Saxmundham, Suffolk

## Letters to the Editor

### US banking system is vulnerable

From Mr Robin Munro-Davies.

Sir, In your leader "Cost of bank bail-outs," (March 25) you accuse Washington of insouciance and argue that the world would be better served if large banks were allowed to fail, with big depositors suffering losses.

You may be right. But I doubt it - and your own leader could be accused of a similar insouciance because it ignores the consequences of the policy it suggests.

The US banking system is currently in a weak position. The reasons for this are well known. Both the Federal Reserve and, possibly, other banks, but such an exercise would certainly have heavy costs both politically and economically.

Your solution - allowing a few important banks to fail - would certainly punish some depositors. However, the scale of the damage that would be done is out of all proportion to any benefit that might be gained.

Robin Munro-Davies, JBGA, Eldon House, 2 Eldon Street, EC2

### Member states might not behave perfectly

From Mr Chris Snowden.

In "The need for European currency" (March 24), Samuel Brittan seems to ignore the effects of fiscal policy.

Unless one assumes perfect capital mobility between countries, it is fair to say that a country's interest rates are determined by a combination of its government's fiscal and monetary policy. With a joint currency, interest rates would depend on the central banks' monetary policy and on the combined fiscal stance of the various member governments.

Thus a government pursuing a balanced budget policy might have the beneficial interest rate effects dimmed by the less responsible action of other member states.

Chris Snowden, Hartwood House Sixth Form College, Hobbey St Mary, Dorking, Surrey

### Just blew in from the Windy City..?

From Mr R.F.J. Spier.

Sir, Is the Post Office deliberately down-grading the first class post at 18p per letter to promote Data-posting at £11 per letter - implied, no doubt, by the AI Council via the School of Marketing?

R.F.J. Spier, The Barn, High Street North, Shenley, Buckinghamshire

### Tensions in Northern Ireland

From Miss M. O'gdon.

The Financial Times published a major article (February 20) on the subject of Northern Ireland and the Anglo-Irish Agreement.

The language and tone of the article seemed chosen to aggravate the distrust and fear of the people of Northern Ireland towards each other. Confrontational terms were used to label the Northern Ireland people and people in the Republic of Ireland.

The normal situation was stated to be one of bigotry and racial ignorance of the rights and wrongs of another. John Lloyd seemed to me to be suggesting that the Government's aim, in continuing the Anglo-Irish Agreement, was the manoeuvring of one religious group into subjection under an unacceptable Catholic country.

The article could be construed as an attempt to heighten tension and misunderstanding in Northern Ireland and the Republic of Ireland. Increase of fear, citizen against citizen, will not help the hopes of this Government (and any other) for peaceful co-existence of all citizens of Northern Ireland.

This is not responsible journalism.

M. O'gdon, 55 Whitehart, Reabrook, Strassburg

## The 'contingency fee' legal system has its darker side

From Mr F.S.R. Johnson.

Sir, The contingency fee legal system so enthusiastically endorsed by Mr Robinson (Letters, March 24) has its darker side.

In the United States under this system a positive industry has grown up in which lawyers encourage their clients to make absurd claims for compensation, in circumstances which are not reasonable by normal standards. This forces the insurance industry to raise premiums to prohibitive levels, or even to decline to underwrite the risk at all in future.

It also causes insurers to write their policies in such restrictive terms as not to provide the security - essential for professional organisations if they are to operate freely and effectively - against accident or malpractice. The medical profession suffers particularly in these circumstances - and ultimately, of course, so do its patients.

This is not to deny the merits of parts of Mr Robinson's letter; but on present evidence the solution does not lie solely in a profit-related litigation system.

Frank Johnson, 9 Hazlet, Tring, Hertfordshire

From Mr Richard Sheehan.

John Fleming (FT, March 11) speaks eloquently of the supposed benefits of the "contingency fee" system. There are undoubted benefits for the plaintiff bar. However, anyone connected with the liability insurance business in the US will tell you that "the ambulance-chasing attorney" has done more to harm the public at large, by forcing unmeritorious settlements ultimately leading to expensive insurance - when insurance is not withdrawn altogether.

Under English law the basic responsibility of a plaintiff to

accept that if he fails to prove his case he may have to pay the defendant's costs is a protection to citizens who may be unfortunate enough to be dragged into a lawsuit through no fault of their own.

Has it occurred to Mr Fleming, and other public spirited lawyers considering the "Open" case, that there is a way for those public spirited lawyers to show that they are seriously concerned about low income plaintiffs? The plaintiff's lawyers could always reduce their fees. Or is that heresy?

Richard Sheehan, 59 Cadogan Gardens, SW1



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INTERNATIONAL BONDS

**Billion dollar question looms after a spell of bright weather**

"AT THE end of last year the market was fearing a nuclear winter; what happened was an Indian spring," said one syndicate manager last week, looking back on a surprisingly clement first quarter in the Eurobond market.

The stabilisation of the dollar apparently gave the lie to the pessimists who had seen last October's stock market crash as the last body-blow to Eurobond firms: the purely fixed interest side of their business had long sickened and now their profitable equity-related business was being taken away from them.

But instead January and February found new issues desks busily launching fixed-rate Euro-dollar bonds for sale to investors suddenly anxious to fill the vacuum in the dollar-denominated parts of their portfolios. It was just like the good old days.

Or was it? The billion dollar question hanging over the market is whether the US currency will plummet now that the start of a new fiscal year in Japan has removed the need to support it for accounting reasons. If, as some fear, the dollar hits ¥110, then in the Eurodollar sector at

least it might as well rain until September.

Already by the end of March, the early days of the year when Merrill Lynch Capital Markets felt confident enough of investor demand to launch a \$350m 10-year bond for Sweden seemed a long time ago.

Last week saw the reappearance of the two-year Eurobond - a \$100m deal for Toronto-Dominion Bank. So short-dated an instrument designed to appeal to investors retreating down the yield curve for defensive purposes, was unknown to the market during its great bull phase.

Moreover, it is unlikely that even the comparatively brisk business of the first three months of this year generated enough profits for Eurobond departments, which notoriously accumulated vast overheads over the last few years, to pay their way.

As one old syndicate desk hand remarked last week: "Personally, I have never been able to see how you could make any money out of the Eurobond market per se." The rot set in a long time ago - once investors woke up to the fact that there was no reason for them to buy a bond at par if it

was trading at three full points below that in the grey market.

After that, houses involved in new issues business, by and large, had to attempt to make up on the related swap, and other services that could be provided to the borrower, the money that had been lost in launching the bond.

This year, however, there has been much talk of a "new realism" in the approach to pricing bonds. Eurobond houses have been careful to match new issues to investor demand, both in terms of pricing of individual deals and of volume, syndicate managers insist.

Houses such as Salomon Brothers International and Goldman Sachs have hardly lead-managed a single bond while no house, these days, would admit to accepting a co-management position purely for relationship reasons.

Just one deal has blatantly harked back to the days when Eurobond houses would offer borrowers almost any terms just to obtain a mandate. This was a \$250m deal for General Electric Corporation led by LTCB International in February.

However, the placement that

**TOP TEN EUROBOND LEAD MANAGERS**

Manager	\$bn	%	Issues
Deutsche	4.88	10.7	32
Nomura	3.83	8.7	30
CSFB	3.30	7.5	20
Daiwa	3.21	7.3	30
UBS	2.01	4.6	15
Merrill	1.98	4.5	10
Warburg	1.89	4.3	9
Yamachi	1.58	3.6	12
J.P.Morgan	1.53	3.5	11
BT	1.36	3.1	12
Industry	45.80		370

Full credit to lead manager  
Source: Euromoney Bondwatch

has been achieved on other issues may have been more talked about than real. Union Bank of Switzerland (Securities), for instance, is said to have withheld the full amount of underwriting fees from co-managers of at least one recent bond. A house may choose to do so if it loses enough money on supporting an issue by buying it back in the grey market.

These issues may have been unusually badly priced, but nevertheless it makes one wonder how many other bonds that have

Eurobond new issue volume picked up substantially in the first quarter of 1988 from the depressed levels of late last year, though the \$44bn total was below the \$48bn in the 1987 first quarter. Deutsche Bank, Union Bank of Switzerland, Merrill Lynch, S.G. Warburg and Bankers Trust all improved their 1987 rankings as a whole. Nikko Securities, Morgan Stanley and Salomon Brothers slipped sharply. The performances reflected some large Eurodollar issues for sovereign borrowers.

been vaulted as well-priced and well-placed have in reality ended up on underwriters' books.

Certainly, a great many of the Eurodollar deals issued while the dollar was on the rise at the beginning of the year are believed to have passed to Middle Eastern trading accounts, which quickly sold bonds back into the market after taking a small turn.

It seems clear, however, that Continental interest in Eurobonds has picked up. The expectation that withholding tax will be imposed on West German

domestic securities from next year is one factor currently underpinning Continental involvement.

Retail European buyers have reportedly been steady buyers of bonds in the higher-yielding currencies, such as Canadian dollars and sterling. But this does not necessarily mean that houses with wide retail outlets are enjoying fat profits. Indeed, they complain their margins are being squeezed as more and more competitors chase a finite number of retail accounts.

The key element which has been missing is large-scale Japanese involvement. This has been indicated by the fact that the Japanese securities houses have launched very few straight fixed rate bonds, mainly confining themselves to the bread-and-butter business of launching equity warrants bonds for Japanese borrowers.

Even if the majority of bonds launched so far this year have proved palatable to investors, the market has still had to wrestle with the problem that most borrowers' target cost of funds has not been compatible with the pricing levels sought by investors.

So instead of effectively subsidising the bond issue they often written a cheque on the underlying swap.

A further problem that the market faces going into the second quarter is that it is getting short of borrowers. Most of the sovereign borrowers who want to launch the kind of sizeable, liquid, high quality deals that investors like tapped the market during the first two months. Norway.

For most US corporates the cost of borrowing in Europe is still not competitive with terms available in the US domestic bond market. Only those companies with borrowing needs so great that they cannot afford to stand aside from the Eurobond market, such as General Motors Acceptance Corporation, have been borrowing in size.

The Eurobond market may have emerged from the last year or so a far leaner, fitter and cautious participant than it used to be. But participants agree that overheads built up over the last few years are still too high for the amount of business there is to go round.

Clare Pearson

**Eridania shows small advance to L43bn**

By Alan Friedman in Milan

ERIDANIA SpA, the Ferruzzi group's holding vehicle for its sugar and other agro-industrial interests, reported a nearly unchanged net profit for 1987 of L43.9bn (€35m) against L42.5bn in 1986. The parent company's turnover was L790.1bn, up slightly on L766.7bn.

The figures do not include results from Beghin-Say, the French sugar group which is 52 per cent owned by Eridania.

Eridania said that taking into consideration all of its agro-industrial holdings on an aggregate group basis it expects to achieve 1988 turnover of L850bn.

This is nearly three times the 1986 level because of acquisitions made in 1987, including the European corn starch operations of CPC, the Lesieur foods group in France, Central Soya, the US soybean concern, and others.

The Ferruzzi group, including its agro-industrial interests, is expected to have a 1988 total turnover of around L14,000bn.

● Suisa Bpd, the defence and specialised engineering company controlled by the Fiat group, has reported a sharp fall in consolidated net profits in 1987, writes John Wyles in Rome.

With turnover virtually static at L2,431bn, net profits fell from L68bn in 1986 to L30.5bn last year. Operating profits fell slightly from L132.8bn to L131.1bn.

The company says that the year was a poor one for its defence and space equipment activities, but fibres, chemical and bio-engineering all registered an increase in operating profits.

Net debt fell 26 per cent to L406.8bn with the result that debt repayments fell from 4.2 to 2.8 per cent of turnover.

EUROCREDITS

**Doing nothing to overcome a wall of market scepticism**

THE DOLLAR'S instability through much of last week was sufficient to scare off international investors from most US dollar-denominated securities.

For the emerging market in Euro medium-term notes, with estimated outstanding of \$3.6bn, it was time "to educate investors about the advantages of the market" - the market euphemism for Nothing Doing.

Indeed, dealers who daily have to cope with the task of selling these notes admit there is still a wall of investor scepticism to overcome before the market - where notes of longer than one year in maturity are offered on a continuous basis - can take off as it has in the US.

Despite the flexibility in

choosing amounts and exact maturities that MTNs are said to offer to investors, they remain doubtful about their ability to sell the notes back, once bought, and about the longevity of the market.

Dealing firms are stressing their commitment to MTNs, describing the market as an Idea Whose Time Has Come.

Citicorp Investment Bank, for example, is emphasising the product in a reorganisation of senior management of its London securities division. Mr Len Harwood, formerly responsible for Eurocommercial paper operations, is now in charge of all securities distribution at the operation. Mr Brian Woolley, one-time head of loan syndication

in London, will head product management and development, and Mr Willie Simon heads product origination and relations with issuers.

"We believe Euro-MTNs will take a growing share of business from the Eurobond market," Mr Harwood said. One of its stated aims is to build on its leading position in the Eurocommercial paper market to increase market share in the emerging market in Euro-MTNs.

Citicorp has never been strong in the distribution of Eurobonds, so such a view is predictable. Yet the move does illustrate a divergence of opinion about how the market should be viewed by dealers, which may have contributed to its slow growth.

Clearly, most regard it as long-term commercial paper, but there is a minority view which suggests this is the wrong approach.

If investors worry about the liquidity of the MTNs, does it make sense for money market teams - with no secondary market experience and contact only with investors with a short maturity horizon - to be distributing these securities, as they do at most banks?

The suggestion is that it would be better for MTNs to be distributed by bond teams which have regular contact with longer-term investors and are used to making secondary markets.

Such an approach is being taken by Salomon Brothers, for

**EUROMARKET TURNOVER (\$bn)**

Primary Market	US\$	£	DM	Other
US\$	3,250.9	0.0	2,518.2	5,998.6
£	3,956.6	1.0	5.1	7,771.1
DM	2,225.5	348.5	404.3	453.8
Other	1,381.9	105.3	255.9	646.3

Secondary Market	US\$	£	DM	Total
US\$	19,671.3	1,513.8	6,907.1	28,092.2
£	16,761.8	1,415.6	8,072.8	26,250.2
DM	21,701.5	91.0	3,894.6	25,687.1
Other	18,469.1	909.7	1,907.8	21,286.6

Week to March 31, 1988. Source: AIBD

The most fashionable school, now espoused by Citicorp and all those other firms recently converted to "functional management," would say the point is irrelevant, reminiscent of discussions at a greengrocer's shop about a tomato's status as a fruit or vegetable. If an investor wants a three-year piece of paper, what does he care whether it's a Eurobond or an MTN?

In the syndicated loans market, JP Morgan headed the first quarter lead managers' table compiled by Euromoney, arranging \$16.7bn in financings. Bankers Trust was second with \$12.5bn and Citicorp third with \$9.29bn.

Last week, a \$640m six-month bridge financing for Elders IXL of Australia, the Australian brewer,

was signed. The loan, led by Citicorp and provided by it and seven other banks, represents the remaining portion of finance for its takeover of Courage, the UK brewer.

At the other end of the bridge is likely to be a medium-term syndicated financing, possibly off balance sheet and possibly secured to the Courage pubs.

In sterling commercial paper, Midland Montagu Commercial Paper arranged a \$75m programme for Laura Ashley, the UK clothing and furnishings group, with Barclays de Zoete Wedd and Kleinwort Benson also acting as dealers. There is a US dollar option.

Stephen Fidler

NEW ISSUE This announcement appears as a matter of record only. MARCH 1988

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**MORGAN GUARANTY TRUST COMPANY OF NEW YORK**

March 1988 This announcement appears as a matter of record only.



INTERNATIONAL CAPITAL MARKETS AND COMPANIES

Qantas-NZ merger plan wins cool reception

By Chris Sherwell and Neil Hayward

AMBITIOUS PROPOSALS to merge and partially privatise the national airlines of Australia and New Zealand yesterday won only qualified endorsement from both sides of the political fence in Australia.

The proposals, revealed at the weekend, would bring together Qantas, Australia's international airline, and Australian Airlines, the state-owned domestic carrier, with New Zealand, that country's domestic and international carrier.

In New Zealand two members of the cabinet, Mr Bill Jeffrey, Civil Aviation Minister and Mr Richard Prebble, State-Owned Enterprises Minister, publicly supported the proposal. However, their support depends on their being definite advantages for New Zealand.

Although widely viewed with favour in Australia yesterday, a further proposal, to float up to 49 per cent of the new grouping to the public, attracted the wrath of anti-privatisation activists.

All three airlines are undercapitalised, while both governments are strapped for money. New Zealand's Labour Government announced last year that it would float part of Air New Zealand, but has yet to proceed.

The Australian Government's ideas for privatising Qantas and Australian Airlines were first mooted after it was returned to power in July. But the issue, which is due to be settled at Labor's conference at Hobart in mid-year, has generated powerful party opposition.

The idea of merging the three airlines has been floated before, but never so firmly. Both the Australian and New Zealand Governments insisted yesterday it remained "conceptual" only, but it is to be discussed at ministerial talks in Canberra.

Few doubt that a merged group would be stronger and better able to compete internationally. The controversy in Australia focuses principally on the question of privatisation.

Mr Jeffrey said last night that New Zealand would need guarantees of reduced passenger fares and cargo rates on the trans-Tasman air routes and would have to be an equal partner - not a minority shareholder - in any new group.

Rumasa chief in offer for troubled Spanish airline

BY PETER BRUCE IN MADRID

MR JOSE Maria Ruiz-Mateos, the Spanish financier whose sprawling but troubled Rumasa banking and industrial empire was expropriated by the country's Socialist Government in 1983, made a spectacular return to the limelight over Easter with an offer to buy Spantax, the bankrupt Spanish charter airline.

Mr Ruiz-Mateos, who is still awaiting trial on charges of accounting fraud, for which he was extradited from West Germany in 1985, has offered to keep all 325 Spantax employees in their jobs and begin a major investment programme in return for 100 per cent of the company.

Unable to pay its insurance premiums, Spantax ceased operations last week with debts of Pta10m (\$81m) owed to the Government. The airline, nearly 30 years old, has a chequered past and was being administered by a Luxembourg-registered group under contract to the Government. Madrid had taken charge of the airline two years ago, when it owed \$50m.

The Ruiz-Mateos bid complicates an already difficult situation for the Government. Relations with the former Rumasa chief are sour, to put it mildly, but his is the only offer made so far. Attempts to find other buyers, including the Kuwaiti Investment Office (KIO), have failed.

Last year the Government agreed to let a group headed by Mr Wolfgang Krauss, former chief of Lufu, the West German regional airline, administer Spantax in return for a promised investment programme and a return to profits this year.

But Mr Krauss's company, Aviation Finance, quickly began to unravel. His partner resigned last December and Spanish airports began to refuse the airline credit. Protesting employees continued yesterday to blockade Spantax's offices and to disrupt airport operations in Palma. A government official offered them an interview with aviation authorities in Madrid this week if they stopped their protests.

Spantax, based in Majorca, carried some 1.2m passengers a year to Spain from North America, northern Europe and Britain. It operates two DC-10s, two newly leased MD-80s, two DC-8s and four Boeing 737s.

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Mr Robert Papariella, a vice-president in Shearson's Pittsburgh office, and Ms Anne Saxon, his assistant, have resigned in protest against the firm's role. They accused their former employer of trying to "double dip" by working with Beazer on the takeover while simultaneously offering defence services to Koppers.

Shearson said Mr Papariella was "grandstanding" and using events to publicise his move to a rival broker in Pittsburgh, Koppers' home town.

Campeau hopes for repeat success

By Roderick Oram in New York

TAKING OVER Allied Stores 15 months ago, an audacious move at the time, has turned out to be nothing but a warm-up act for Mr Robert Campeau.

The Canadian real estate developer now has to make the same techniques of heavy debt and quick disposals pay off in his \$6.6bn purchase of Federated Department Stores. Wall Street, surprised by the \$3.6m Allied deal, is even more sceptical about the Federated purchase given its size and the generally flat outlook for the US retail sector.

The 10-week battle came to a climax late last week when the Federated board accepted a \$73.50 a share offer from Mr Campeau. He had snatched the grand prize after cutting a last minute deal with R.H. Macy, the privately held New York retailer, which had been bidding against him.

Macy's will pay Campeau \$1.1bn for two key Federated operations, the I. Magnin and Brillock's Wilshire divisions which will essentially beef up its presence in California. Campeau will in turn pay Macy's \$60m expenses from the abortive takeover.

Campeau had opened the bidding in January with an offer of \$47 a share. The final price, after one of the most convoluted and litigious battles in recent years makes the deal the largest non-oil takeover ever in the US.

Campeau has already agreed to sell Federated's Brooks Brothers clothing shops to Marks and Spencer of the UK and its Filene's and Foley's divisions to May Department Stores of the US. Many more disposals are expected.

The bidding war forced Campeau substantially to reduce ownership of his Canadian and US holding companies to secure additional sources of funds.

Mr Edward DeBartolo, a shopping centre developer, pledged \$40m and the Reichmann family of Toronto chipped in \$20m both in exchange for a chunk of Mr Campeau's empire. If Campeau stumbles, they will extract a huge penalty from him.

Also, if market conditions or the sheer scale of the latest deal work against him, he will be cruelly exposed to a massive new debt burden.

Rowe drops out of Leigh fight

BY ROBERT GIBBENS IN MONTREAL

MR KENNETH ROWE, the Nova Scotia entrepreneur, and his IP Scotia concern have dropped out of the fight for Leigh Instruments, the Ottawa avionics group, leaving the field open to Plessey of the UK.

Mr Rowe began the takeover fight six weeks ago. After several increases in his bid, Plessey's last offer of C\$7 per Leigh common share and C\$29.25 per preferred has carried the day with full recommendation by the Leigh board.

Mr Rowe did not say whether he will tender the shares he already owns in Leigh to Plessey. The total value of the Plessey bid is around C\$100m (US\$51m).

Plessey Energy & Chemical is continuing its opposition to a takeover bid from Nova, the big Western Canadian energy group. Plessey has postponed a directors' meeting originally scheduled for last week to consider the Nova offer until Thursday.

The directors will take the extra time to study the Nova bid and evaluate "other options."

Analysts believe Polyser, the former Canada Development Corporation, is holding out for a higher price.

Nova has offered C\$22.50 a share for the 75 per cent voting interest in Polyser that it does not already own, amounting to nearly C\$700m.

NEW INTERNATIONAL BOND ISSUES

Table with columns: Borrowers, Amount m., Maturity, Av. life years, Coupon %, Price, Book runner, Offer yield %. Rows include US DOLLARS, AUSTRALIAN DOLLARS, DEUTSCHE MARKS, SWISS FRANCES, FRENCH FRANCES, LUXEMBOURG FRANCES, ECU, LIBRE, STERLING, YEN.

Koppers seeks permanent order

BY OUR NEW YORK STAFF

KOPPERS, THE Pittsburgh-based building materials and chemical company, returned to a Los Angeles court yesterday to seek a permanent injunction on anti-trust grounds against a bitterly fought takeover offer from Beazer, the UK construction group.

A temporary restraining order against Beazer, issued by the court 10 days ago, expired yesterday. The court had ruled that a merger might carry anti-trust considerations because Beazer and Koppers both own plants in southern California. The takeover has already been cleared on these grounds by the Justice Department.

Beazer said the temporary order had no practical effect on it because its \$60 a share, \$1.69bn tender offer expires on Thursday, three days after the initial order lapses. But Koppers is hoping another court ruling in its favour in the next few days would impair Beazer's bid.

Koppers has won several other legal victories in recent days. A Delaware judge upheld Koppers' poison pill defence and its eligibility to use the state's anti-takeover statute. Beazer had asked the court to rule against both.

Meanwhile, the armistice surrounding the role of Shearson Lehman Hutton in the deal increased sharply. Shearson has moved to the sale of some or all of its assets if a satisfactory price can be agreed. Hachette's improved offer expires on April 14.

BAT Industries of the UK said it could raise its offer for Farmers Group, the US insurance concern, from the current \$63 per share.

In a newspaper advertisement, it said that, although it believed the current offer by its BATOS unit was "generous," it would seriously consider paying an even higher price in a friendly transaction supported by the Farmers board.

F. W. Woolworth shares

joined with Beazer and NatWest, the UK bank, to form BNS, a company to launch the bid.

Mr Robert Papariella, a vice-president in Shearson's Pittsburgh office, and Ms Anne Saxon, his assistant, have resigned in protest against the firm's role. They accused their former employer of trying to "double dip" by working with Beazer on the takeover while simultaneously offering defence services to Koppers.

Shearson said Mr Papariella was "grandstanding" and using events to publicise his move to a rival broker in Pittsburgh, Koppers' home town.

Woolworth gained 7% to \$27. The Haft family have a long history of takeover bids for big US retailers, none of which have succeeded.

Corning Glass Works said it reached an agreement with SmithKline Beckman under which Corning agreed to end its amended tender offer for all the shares of International Clinical Laboratories, the US laboratory testing concern, and a related merger agreement.

F. W. Woolworth shares

Grolier stock tops new Hachette terms

SHARES OF Grolier, the US encyclopedia and reference book publisher, rose above the improved offer price of \$24 a share proposed by Hachette as the French publisher began its hostile tender yesterday, writes Roderick Oram in New York.

The shares rose 1/2 to \$25 1/2 while the market waited for Grolier to respond to the new offer, worth \$444m in total, which Hachette made late last week. The Connecticut company had earlier rejected an inadequate Hachette's initial offer of \$21 a share.

Grolier is continuing talks with third parties which it said might



Facet Enterprises, Inc.

OPEN LETTER TO HOLDERS OF 7% CONVERTIBLE SUBORDINATED DEBENTURES DUE TO 2002 FROM THE CHAIRMAN OF THE BOARD OF FACET ENTERPRISES, INC.

DEAR DEBENTURE HOLDERS:

As you may be aware, a wholly-owned subsidiary of The Prospect Group, Inc. is making an unsolicited cash tender offer for Facet's shares of common stock. On March 24, 1988, after your Board had unanimously rejected the original \$26 (U.S.) per share offer as inadequate, Prospect increased the per share offer price to \$27.50 (U.S.).

The Facet Board has unanimously determined that the current Prospect offer is inadequate. Furthermore, in the Board's view the offer remains excessively conditional and not in the best interests of current Facet and its stockholders. The Board continues to recommend unanimously that stockholders reject the offer and not tender their shares.

Although Prospect claims not to be making an offer for your convertible debentures, it is effectively trying to do just that by asking you to submit your debentures to Prospect's "Conversion and Forwarding Agent" together with a form which would confer authority on its agent to convert your debentures and tender the underlying common shares. Your debentures are currently convertible into Facet common shares at a conversion price of \$25 1/2 (U.S.).

If you would like a copy of the letters that I have sent to our common stockholders and the accompanying filings made with the United States Securities and Exchange Commission setting forth the reasons for the conclusions, recommendation and actions of the Board, or if you have any questions concerning Facet's position regarding the unsolicited Prospect offer, please call the telephone number indicated below.

Please note that we are making no recommendation as to whether or not, now or in the future, you should convert any of your debentures. However, if you wish to do so, we do recommend that you use the regular conversion procedures established under the terms of the debentures and do not use the form provided by Prospect.

As a potential owner of our common stock, you can be assured that we will continue to act in a manner which we believe to be in the interests of Facet and its stockholders.

We thank you for continued support and encouragement.

Sincerely,

James R. Malone

JAMES R. MALONE Chairman and Chief Executive Officer

IF YOU HAVE ANY QUESTIONS OR WOULD LIKE FURTHER INFORMATION CONCERNING THESE MATTERS PLEASE CALL D.F. KING & CO., INC. IN NEW YORK AT 212-269-5550 (COLLECT) OR D.F. KING'S ASSOCIATE, TR. DAWSON & CO., IN LONDON AT 588-2453.

Mandarin Oriental advertisement featuring a large image of a hotel building and text: 'The legend of Mandarin Oriental was created by two of the finest hotels in the world. The Oriental Bangkok and Mandarin Oriental Hong Kong. This legend grew from a reputation for excellence in service and a dedication to providing the most elegant accommodation. Now, the essence of that legend has been captured by Mandarin Oriental Hotels in a few other select locations including Singapore and San Francisco. So it's hardly surprising that other hotels have tried to capitalise on our good name. Needless to say, though, they haven't been able to imitate the legend.'



CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar trades nervously in New York on strong employment data

BY COLIN WILLIAMS

AS THE Easter holiday continued in Europe trading in New York resumed yesterday. The dollar weakened, following Friday's release of stronger than expected US employment data.

Forecasts varied widely, but the rise of 263,000 in non-farm payrolls was above most expectations, and suggested US growth is strong, which in turn could mean no early improvement in the trade deficit.

The dollar opened at DM1.6500 and Y132.75, and looked set to remain depressed, although dealers were reluctant to put too much pressure on the currency for fear of intervention by the Federal Reserve.

It struggled up a little to around DM1.6830 and above Y134.00, mainly on profit taking. There were reports of some unwinding of long yen positions against the D-Mark, but trading

was very thin in New York, with the added stimulus of business from London and Frankfurt. Sterling pushed up above \$1.8900, and held steady at around DM3.1250.

Last week on the foreign exchanges was dominated by continued demand for sterling, as the pound shrugged off the poor February trade figures, announced on the previous Friday, and by a general mood of

nervousness surrounding the dollar. Money moved into high yielding currencies, including the pound, as the market became generally disillusioned with the dollar.

The main impact on sterling was the evidence given to a Commons' Treasury and Civil Service Committee by Mr Robin Leigh-Pemberton, Governor of the Bank of England, and Mr Nigel Lawson, Chancellor of the Exchequer. The pound rose on Wednesday after Mr Lawson, said little different to the committee on Monday, although according to week-end press reports there remains a major rift within official circles on currency policy.

Mr Lawson stressed the importance of the fight against inflation. This was in line with recent comments by Mrs Margaret Thatcher, the Prime Minister, and appeared to remove a major hurdle to the pound's advance. Sterling rose sharply, and was sold by the Federal Reserve in New York, but continued to improve. The pound's rate against the dollar on Thursday was the highest since January 1982.

This week will see publication of UK official reserve figures tomorrow, but no important US data.

The median forecast in the City is for a rise of about \$1.5bn in the March reserves. Morgan Grenfell suggests there was a substantial amount of intervention prior to the uncapping of

sterling on March 7, but very little in the following weeks to the end of the month.

Morgan Grenfell forecasts the reserves will rise \$2bn. ANZ Merchant Bank agrees with this figure, and points out that on one day alone the authorities sold \$1bn of sterling below DM3.00. Even when DM3.00 was breached ANZ suggests the central bank remained active, especially prior to the base rate cut on March 17.

Stockbroker, James Capel, believes the underlying rise in the reserves could be as high as \$3.5bn.

The market sees the next test for the pound at DM3.15, and as the debate continues on currency policy, dealers will be intrigued to see if this results in another cut in UK bank base rates.

BASE LENDING RATES table with columns for bank names and interest rates.

LIFFE FT-45 INDEX FUTURES table with columns for price, call, and put settlements.

LIFFE 10 TREASURY BOND FUTURES table with columns for price, call, and put settlements.

LIFFE LONG GILT FUTURES table with columns for price, call, and put settlements.

EMS EUROPEAN CURRENCY UNIT RATES table with columns for currency, rate, and change.

STERLING INDEX table with columns for date, index, and previous close.

CURRENCY RATES table with columns for bank, rate, and special.

CURRENCY MOVEMENTS table with columns for bank, rate, and margin.

THE F.T. CENTENARY TRIPLE MARATHON CHALLENGE advertisement for The Sick Children's Trust.

LIFFE 5000 STERLING table with columns for price, call, and put settlements.

LIFFE 10 TREASURY BOND table with columns for price, call, and put settlements.

LIFFE 45 STERLING table with columns for price, call, and put settlements.

POUND SPOT - FORWARD AGAINST THE POUND table with columns for date, rate, and forward.

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR table with columns for date, rate, and forward.

OTHER CURRENCIES table with columns for currency, rate, and margin.

CHICAGO table with columns for price, call, and put settlements.

JAPANESE YEN table with columns for price, call, and put settlements.

3-MONTH LIBOR table with columns for rate and previous day's rate.

EURO-CURRENCY INTEREST RATES table with columns for currency, rate, and term.

EXCHANGE CROSS RATES table with columns for currency, rate, and previous day's rate.

FORWARD RATES AGAINST STERLING table with columns for date, rate, and forward.

U.S. TREASURY BOND table with columns for price, call, and put settlements.

U.S. TREASURY BILLS table with columns for price, call, and put settlements.

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LONDON RECENT ISSUES

Table with columns: Name, Price, Change, etc. under the heading 'EQUITIES'.

Table with columns: Name, Price, Change, etc. under the heading 'FIXED INTEREST STOCKS'.

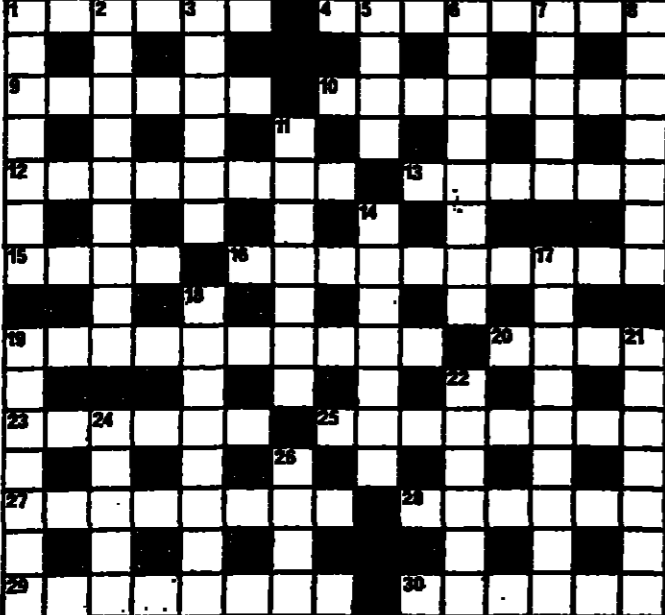
Table with columns: Name, Price, Change, etc. under the heading 'RIGHTS OFFERS'.

Investment data summary text regarding market performance and indices.

Advertisement for Finstat, featuring the slogan 'When prices matter - Finstat delivers the FT prices online...' and contact information.

Advertisement for 'Old Soldiers Never Die...' featuring an illustration of a soldier and a person in a wheelchair, promoting the Army Benevolent Fund.

FT CROSSWORD No.6,597 SET BY PROTEUS



- List of crossword clues under 'ACROSS' and 'DOWN' headings, including '1 Animal writer (6)', '2 Athlete taking drug in Kentucky presumably (4,5)', etc.

AUTHORISED UNIT TRUSTS

Large table listing various unit trusts, their managers, and performance data. Columns include Trust Name, Manager, and various financial metrics.

Handwritten signature or mark at the bottom of the page.



FT UNIT TRUST INFORMATION SERVICE

Handwritten note: "Handwritten text at top center of page, possibly a signature or initials." (Note: The text is illegible due to image quality.)

Main table containing unit trust information, including columns for company names, fund names, and numerical values. The table is organized into several vertical sections.

INSURANCES

Continued on next page



FT UNIT TRUST INFORMATION SERVICE

LONDON SHARE SERVICE

delivered

Table of FT Unit Trust Information Service listing various unit trusts with columns for Name, Investment, and other details.

Table of LONDON SHARE SERVICE listing BRITISH FUNDS, FOREIGN BONDS & RAILS, and AMERICANS with columns for Name, Price, and other details.

Table of Money Market Trust Funds and Money Market Bank Accounts listing various financial products with columns for Name, Price, and other details.

LONDON SHARE SERVICE

AMERICANS - Cont'd

Table with columns: Market, Stock, Price, Bid, Ask, Last, Dividend, Ex-Div. Date. Includes entries like 3.214 Gen Corp, 3.215 Gen Corp, etc.

CANADIANS

Table with columns: Market, Stock, Price, Bid, Ask, Last, Dividend, Ex-Div. Date. Includes entries like 1.200 Alcan, 1.201 Alcan, etc.

BANKS, HP & LEASING

Table with columns: Market, Stock, Price, Bid, Ask, Last, Dividend, Ex-Div. Date. Includes entries like 1.150 Alliance, 1.151 Alliance, etc.

Hire Purchase, Leasing, etc.

Table with columns: Market, Stock, Price, Bid, Ask, Last, Dividend, Ex-Div. Date. Includes entries like 1.150 Alliance, 1.151 Alliance, etc.

BEERS, WINES & SPIRITS

Table with columns: Market, Stock, Price, Bid, Ask, Last, Dividend, Ex-Div. Date. Includes entries like 2.792 Allied-Lyons, 2.793 Allied-Lyons, etc.

BUILDING, TIMBER, ROADS

Table with columns: Market, Stock, Price, Bid, Ask, Last, Dividend, Ex-Div. Date. Includes entries like 2.310 Balfour Beatty, 2.311 Balfour Beatty, etc.

BUILDING, TIMBER, ROADS Cont'd

Table with columns: Market, Stock, Price, Bid, Ask, Last, Dividend, Ex-Div. Date. Includes entries like 2.312 Balfour Beatty, 2.313 Balfour Beatty, etc.

CHEMICALS, PLASTICS

Table with columns: Market, Stock, Price, Bid, Ask, Last, Dividend, Ex-Div. Date. Includes entries like 1.180 British Petroleum, 1.181 British Petroleum, etc.

DRAPERY AND STORES

Table with columns: Market, Stock, Price, Bid, Ask, Last, Dividend, Ex-Div. Date. Includes entries like 1.180 British Petroleum, 1.181 British Petroleum, etc.

DRAPERY AND STORES - Cont'd

Table with columns: Market, Stock, Price, Bid, Ask, Last, Dividend, Ex-Div. Date. Includes entries like 1.182 British Petroleum, 1.183 British Petroleum, etc.

ELECTRICALS

Table with columns: Market, Stock, Price, Bid, Ask, Last, Dividend, Ex-Div. Date. Includes entries like 1.184 British Petroleum, 1.185 British Petroleum, etc.

ENGINEERING - Cont'd

Table with columns: Market, Stock, Price, Bid, Ask, Last, Dividend, Ex-Div. Date. Includes entries like 1.186 British Petroleum, 1.187 British Petroleum, etc.

FOOD, GROCERIES, ETC

Table with columns: Market, Stock, Price, Bid, Ask, Last, Dividend, Ex-Div. Date. Includes entries like 1.188 British Petroleum, 1.189 British Petroleum, etc.

HOTELS AND CATERERS

Table with columns: Market, Stock, Price, Bid, Ask, Last, Dividend, Ex-Div. Date. Includes entries like 1.190 British Petroleum, 1.191 British Petroleum, etc.

INDUSTRIALS (Miscel.) - Cont'd

Table with columns: Market, Stock, Price, Bid, Ask, Last, Dividend, Ex-Div. Date. Includes entries like 1.192 British Petroleum, 1.193 British Petroleum, etc.

INDUSTRIALS (Miscel.) - Cont'd

Table with columns: Market, Stock, Price, Bid, Ask, Last, Dividend, Ex-Div. Date. Includes entries like 1.194 British Petroleum, 1.195 British Petroleum, etc.

INSURANCES

Table with columns: Market, Stock, Price, Bid, Ask, Last, Dividend, Ex-Div. Date. Includes entries like 1.196 British Petroleum, 1.197 British Petroleum, etc.

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NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

Main table containing stock prices for various companies, organized in columns with headers for stock name, price, and change.







AMERICA

Half-hearted rally runs out of steam

Wall Street

A HALF-HEARTED rally in equities yesterday morning, as bond prices slumped, lost steam and both bonds and equities ended lower on the first trading day since the long Easter break...

Yesterday was the first time both markets had the opportunity to react to Friday's figures because of the Easter holiday closure. Bonds also had to digest another piece of evidence about the economy yesterday which, on a whole, showed signs of economic strength.

MARKETS in Europe and South Africa were closed yesterday, except for the Madrid Bourse where shares closed mixed after a dull, thin session and the general index edged up 0.52 points to 271.43.

The latest report by National Purchasing Managers, regarded as a key indicator of demand in the economy, showed that growth slowed for the third consecutive month in March. However, there was evidence of stronger growth ahead with a strong new orders component.

Canada

STOCKS gave up earlier gains to close slightly lower in quiet trading. The composite index, which had risen about eight points in earlier trading, slipped 0.90 to 333.00 as advances outnumbered declines by 383 to 329 on light turnover of 14.8m shares.

ASIA

Price worries erode Nikkei gains

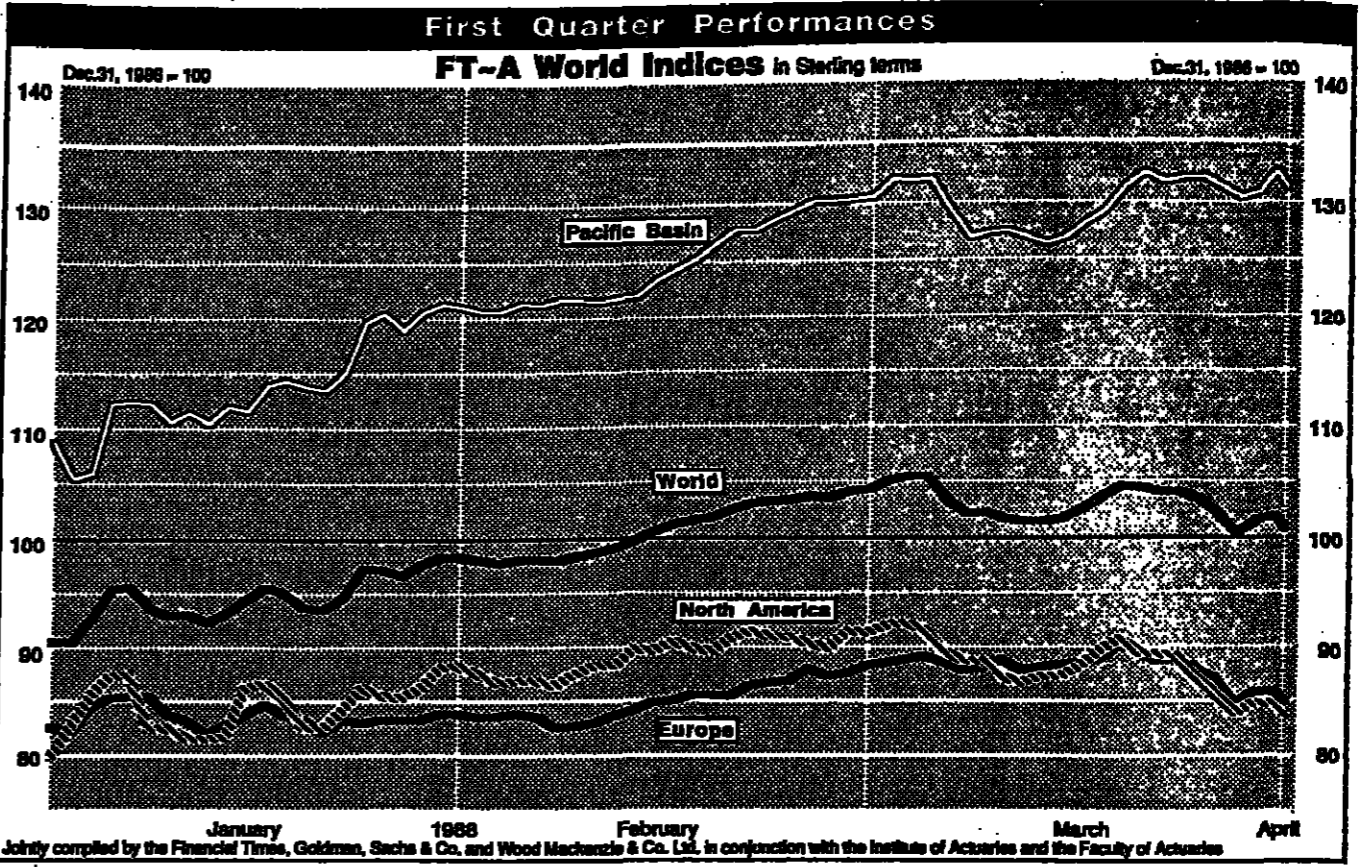
Tokyo

GROWING wariness of high prices combined with the Tokyo dollar bond market's tumble eroded early gains and held the Nikkei average to a moderate rise in Tokyo yesterday, writes Shigeo Nishizaki of Jiji Press.

Y397. Conversely, Mitsubishi Heavy Industries added Y8 to Y77 on bargain-hunting. The high-tech sector, after a firmer start, eased on the yen's appreciation against the US dollar.

Over-the-counter trading volume totalled Y3,300bn. The Osaka Securities Exchange (OSE) moved ahead 156.09 to 26,442.28 on broad-based buying triggered by higher prices. Turnover weakened by 75.60m shares to 134.22m shares.

IN LETHARGIC trading in Singapore share prices closed marginally lower over a broad front on lack of buying interest and some selling by small investors.



FT - ACTUARIES WORLD INDICES. Jointly compiled by the Financial Times, Goldman, Sachs & Co., and Wood Mackenzie & Co. Ltd., in conjunction with the Institute of Actuaries and the Faculty of Actuaries.

Table of National and Regional Markets for Monday April 4 1988 and Friday April 1 1988. Columns include Country, US Dollar Index, Day's Change, Starting Index, Local Currency Index, Gross Yield, US Dollar Index, Starting Index, Local Currency Index, Gross Yield, 1988 High, 1988 Low, and Year Ago (approx).

GRANVILLE SPONSORED SECURITIES. Table listing various securities with columns for Company, Price, Change, Dividend, Yield, and P/E.

FT A FINANCIAL TIMES INTERNATIONAL CONFERENCE. Business with Spain. Palace Hotel, Madrid 9 & 10 May 1988.

WORLD CURRENCIES

The table below gives the latest available rates of exchange against four key currencies on Thursday March 31, 1988. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise.

Table of World Currencies showing exchange rates for various countries against US\$, DM, Yen, and SDR. Columns include Country, US\$, DM, Yen, SDR, and Country, US\$, DM, Yen, SDR.

Milk Marketing Board. \$75,000,000 Floating Rate Notes 1988. In accordance with the provisions of the Notes, notice is hereby given that the rate of interest for the three month period 30th March, 1988 to 30th June, 1988 has been fixed at 8 3/4% per annum.

Business with Spain. Speakers taking part include: D. Luis Carlos Croxsoner, Minister of Industry and Energy, Spain; D. Manuel Marín, Commissioner of the European Communities; Mr Peter Lentze, Secretary for Germany; Mr Peter Sutherland, Commissioner of the European Communities; Dr Martin Rasmussen, Minister of Economics, Federal Republic of Germany; D. Mariano Rubio Jiménez, Minister of Spain; Mr Fouad K. Jaffar, Kuwait Investment Office; D. Marco Conde, Banco Español de Crédito; Mr Robert D. Deibel, AT&T Europe; D. Guillermo de la Dehesa, Guillelmo de la Dehesa, Secretary of State for the Economy, Spain.

AMERICAN EXPRESS Bank Ltd. US\$200,000,000 Floating Rate Subordinated Capital Notes Due 1999. Notice is hereby given that for the Interest Period 6th April, 1988 to 6th July, 1988 the Notes will bear interest at the rate of 7 3/4% per annum. The interest payable on 6th July, 1988 against coupon No. 5 will be US\$178.52 per US\$10,000 nominal and US\$4,463.11 per US\$250,000 nominal. DATED THIS 5th DAY OF APRIL, 1988. Principal Paying Agent: ORION ROYAL BANK LIMITED.

Business with Spain. The Financial Times Conference Organisation, 128, Jervis Street, London W1T 4JL. Tel: 01-825 2123. Fax: 01-825 2123. Please send no further details.

TRADE INDEMNITY. CREDIT RISK MANAGEMENT SERVICES 01-730-9939. Logo with a shield and the number 7.

Handwritten Arabic text: "مركز التمويل"